FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,535 Wednesday May 11 1988 D 8523 A

Debts mount after Jordanian export boom, Page 6

World News

Danish poll fails to clarify Nato issue

Danish Prime Minister Poul Schlüter is expected to lead a new coalition after yesterday's general election brought substantial gains for the Right. But it did not clarify Denmark's attitude to Nato which was the key issue.

With over a third of the votes counted, the centre-left was reduced from 96 to 91 or 92 seats but still commands a majority. Six non-socialist parties were returned with 94 or 93 seats compared with 90, leaving the three socialist parties with 81 or 82 seats in the 179-seat single-chamber assembly.

Soviet central planning castigated

A damning criticism of the entire system of centralised planning in the Soviet economy, blaming it for creating simultaneously excess stocks and chronic shortages, was published in a leading Moscow magazine. Page 2

Sri Lanka peace pact

Sri Lanka signed a surprise peace agreement with Sinhalese Marxist rebels accused by police of trying to kill President Junius Jayewardene last August. The JVP rebels agreed to end political violence and surrender their weapons by May 29. Page 7

Extradition approved

A US federal court cleared the way for the extradition of West German currency broker Hans Joachim Schmidt, accused of conspiring to swindle Volkswagen of more than $280m.

Credit criticised

US Defence Secretary Frank Carlucci said he was unhappy with a $2.1bn line of credit granted to the Soviet Union by West German banks because it gave the Soviets more money to use for military activities and thus put an extra burden on US defence forces.

Anti-apartheid attacks

Pump lines were cut and oil tanks contaminated with paint at four Shell petrol stations in the Netherlands in protest against the Anglo-Dutch Shell group's investments in South Africa.

Indian bank blast

One person was killed and 13 others wounded when a bomb exploded at a Citibank branch office in New Delhi. Sikh separatists were suspected of planting the bomb. Page 7

Hamburg mayor quits

Hamburg Mayor Klaus von Dohnanyi, one of West Germany's most prominent Social Democrats, announced his sudden resignation two days after his party scored a landslide victory in state elections.

Identity cards seized

Hundreds of Gazans were compelled by the Israeli army to hand in their old identity cards, to be replaced only after their bearers had been cleared by Israeli taxation and security authorities. Page 7

Chile poll call

Chile's air force commander, Gen Fernando Matthei, said he would prefer open elections to the one-man presidential plebiscite planned this year, but warned opposition groups that even if voters rejected the Government candidate the regime's constitution would remain. Page 4

Troops fire on crowds

Pakistani troops fired on crowds in an area of Karachi under curfew and police arrested rioters and seized arms in the city where 35 people had been killed in three days of fighting between ethnic groups.

Cheers for Iceland

Iceland's Parliament voted to lift a ban on beer for the first time since 1915, ending the country's distinction of being Europe's only ale-free country.

Business Summary

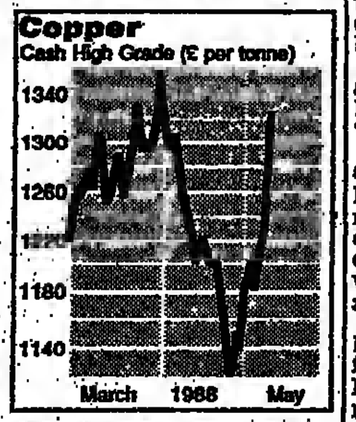
IMF chief challenges commercial banks

DEBTOR COUNTRIES' efforts to follow sound economic policies were being hit by failure of commercial banks to lend more money, Mr Michel Camdessus, managing director of the International Monetary Fund, said in London. Page 7

US FEDERAL RESERVE appears to have tightened monetary policy in response to growing fears about higher inflation. Dealers were speculating yesterday that US banks would increase their prime rates within the next few days. Page 24

NESTLE: Swiss group's bid for Rowntree, UK sweets company, may not be referred to the British monopolies commission after the UK Government responded coolly to parliamentary calls for a referral. Page 25

COPPER prices rose sharply on the London Metal Exchange. The Grade A cash position closed up



£92 at £1325 a tonne. Commodities, Page 36

GOLD: In London, gold bullion closed at $446.75 ($445) an ounce. Page 36

TOKYO: Small-lot buying sparked a rebound for the first time in four trading days, despite Wall Street's continued decline. The Nikkei average ended 147.95 higher at 27,412.25. Page 48

WALL STREET: The Dow Jones Industrial Average closed up 6.30 at 2,003.65. Page 48

LONDON: The shadow of stronger sterling continued to fall across UK security markets. The FT-SE 100 ended 2.8 lower at 1792.6. Page 44

DOLLAR closed in New York at DM1.67925, Y124.35, FFr5.6915, SFr1.3950. It closed in London at DM1.678 (DM1.6820); Y124.5 (Y124.80); SFr1.395 (SFr1.4005); and FFr5.691 (FFr5.7050). The dollar index closed at 92.6 (92.8). Page 37

STERLING closed in New York at $1.8895. It closed in London at $1.882 ($1.8795), DM3.158 (DM3.1625); Y234.8 (Y234.50); SFr2.625 (SFr2.6325) and FFr10.71 (FFr10.7225). Its index was unchanged at 78.5. Page 37

BASF, West German chemical concern, lifted group sales and pre-tax profits by 7.5 per cent in the first quarter, the chairman, said. Page 26.

THE LIMITED, Columbus, Ohio store group which revolutionised the mass selling of women's clothes in the US, saw first-quarter earnings halve. Page 25

AMSTRAD, UK personal computer and word processor group, launched a video camera model which undercuts the price of most existing British ranges. Lex, Page 24; Page 25

NEW STRAITS TIMES, Malaysian publishing chain, reversed three years of falling earnings with a 146 per cent rise in half-yearly pre-tax profits. Page 27

GREECE suffered a setback to its current account, with the deficit rising to $1.038bn in the first quarter against $752.1m in the same period last year. Page 3

AKZO, Dutch chemicals and fibres group, and Du Pont, US chemicals company, have ended a decade of legal battles over each other's manufacturing patents for producing super-strong fibres. Page 6

Mitterrand selects popular socialist to form government

BY IAN DAVIDSON AND PAUL BETTS IN PARIS

MR MICHEL ROCARD, former Agriculture Minister and one of the most popular socialist leaders in France, was last night asked by President François Mitterrand to form a new French Government.

The appointment of Mr Rocard, following Mr Mitterrand's landslide victory in presidential elections on Sunday, is the first step in creating an opening by the Socialist party towards the political centre.

Mr Rocard, long a rival of Mr Mitterrand and an advocate of social democratic pragmatism, last night moved into the Hotel Matignon, official residence of the Prime Minister, and immediately embarked on the delicate task of forming a government that reflects Mr Mitterrand's desire to broaden his political base on the centre-left.

Newly-appointed French Prime Minister Michel Rocard (left) with defeated presidential candidate Jacques Chirac at the Hotel Matignon, the prime minister's official residence yesterday

Mr Rocard declined to make any policy declarations, but said ha had been appointed to a "heavy task."

Earlier in the day, Mr Jacques Chirac, the outgoing right-wing Prime Minister and leader of the neo-Gaullist RPR party, presented his resignation to the President. Mr Chirac has said he would take a few days' holiday after his defeat.

The most pressing question for Mr Rocard is whether he can form a stable government in a National Assembly which has a right-wing majority. Mr Mitterrand made it clear during the presidential campaign that he wished, if possible, to work with the existing National Assembly and avoid immediate general elections. He said he would call a fresh election only if the new government were "prevented from acting."

Given the margin of victory over Mr Chirac, Mr Mitterrand is under considerable pressure from within the party to take advantage of the momentum and call an immediate general election.

However, the President made the need to broaden his political base one of the central themes of his campaign and he indicated he would like the government to include non-socialist ministers and technocrats.

Mr Rocard is understood to share Mr Mitterrand's view on this point and his government is likely to include several new faces. At the same time, however, he will be obliged to take in some of the most prominent Socialist party figures.

It is widely assumed that a job in the government will be found for Mr Lionel Jospin, who has decided after seven years to give up his position as First Secretary of the Socialist party. Other names usually mentioned include Mr Pierre Beregovoy, former Finance Minister and Mr Mitterrand's campaign manager during the presidential election; Mr Jack Lang, the former Culture Minister; and Mr Jean-Pierre Chevenement, former Education Minister.

Editorial comment, Page 22

US Senate's doubts could jeopardise INF timetable

BY WILLIAM DULLFORCE IN GENEVA AND NANCY DUNNE IN WASHINGTON

MR GEORGE SHULTZ, the US Secretary of State, and Mr Eduard Shevardnadze, the Soviet Foreign Minister, face serious difficulties over ratification of the US-Soviet Intermediate-range Nuclear Forces (INF) treaty when they meet in Geneva today to prepare the agenda for the Reagan-Gorbachev summit meeting in Moscow on May 29.

The trouble erupted on Monday when the US Senate decided to postpone indefinitely its debate on the INF treaty until all differences with Moscow over its interpretation had been satisfactorily settled.

President Ronald Reagan had urged Congress to ratify tba treaty, signed at the Washington summit meeting in December, so that he could exchange instruments of ratification when he meets Mr Gorbachev in Moscow on May 29.

The White House yesterday played down the postponement in the Senate debate and said it was "a prudent and reasonable course of action" to get a dispute over verification procedures resolved before approving the pact.

Mr Marlin Fitzwater, the White House spokesman, stressed that the Administration and the Senate were agreed on the need to delay the debate, which was scheduled to start today. He said the verification issues could be resolved "in a day or two" and that the Administration still hopes for ratification of the accord in time for the Moscow summit.

The INF treaty abolishes all nuclear missiles in the 500km to 5,000km range. US senators are concerned about a number of issnes related to the treaty, including the status of futuristic weapons, equipped with lasers or radio beams rather than nuclear warheads.

Both the Reagan and Gorbachev administrations have interpreted the treaty as banning such weapons but senators want the assurances spelt out "in treaty language", an official of the US Arms Control and Disarmament Agency said. Senators also want to know how compliance with the ban on such weapons is to be verified.

Another difference the Senate wants cleared np coocerns inspection rights under the

Continued on Page 24

US securities houses shy away from stock index arbitrage

BY JANET BUSH IN NEW YORK

THE TWO US securities houses believed to be the heaviest users of stock index arbitrage, the computerised trading strategy which has been the focus of intense distrust since the stock market crash last October, said yesterday they were ending the activity on their own accounts.

In what was plainly a co-ordinated move, Salomon Brothers and Morgan Stanley issued lengthy statements explaining their decisions. PaineWabber, another US brokerage, made a similar announcement, and Bear Stearns chipped in with a statement saying that it had not used stock index arbitrage for its own account or for cistomers since May 5.

The brokerages said they had made their decisions independently but acknowledged that they had consulted each other by telephone last Friday and over the weekend.

They denied suggestions on Wall Street that matters had come to a head because of the New York Stock Exchange's decision at the beginning of last week to ask for daily reports from securities houses on all programme trading activity.

US Federal Reserve appears to have tightened monetary policy in response to growing fears about higher inflation. Dealers speculated yesterday that US banks would increase their prime rates within the next few days. Page 24

Stock index arbitrage is one form of programme trading used to hedge buying and selling of baskets of shares based on the major stock market indices using the futures market. The strategy, which is highly computerised, is not only a useful tool to hedge against risk but can also be used as a speculative vehicle, taking advantage of price discrepancies between the futures and cash markets.

In various reviews of the October stock market crash, stock index arbitrage was identified as contributing to volatility in share prices. The practice has provoked criticism within the securities industry, the US press and many politicians in Congress.

Although there has been this immense political and peer pressure, there does not appear to have been a formal request to refrain from stock index arbitrage from the New York Stock Exchange, which has been at the forefroot of efforts to contain market volatility.

In their statements yesterday, which had similar wording, the securities houses argued that ending stock index arbitrage was not the answer to volatility, but they acknowledged that the issue had become emotional and politically highly charged.

The houses expressed the hope that yesterday's moves would clear the air for a rational and constructive debate about longer-term structural adjustments in financial markets.

Strike at Gdansk ends without agreement

By Christopher Bobinski in Warsaw

THE NINE-DAY sit-in strike at the Lenin shipyard in Gdansk ended yesterday evening, when Lech Walesa led up to 1,000 mainly young shipyard workers out of the main gate. Passers-by clapped and church bells were rung, as the men marched to a service at St Bridget's nearby, which has served as a support centre during the strike.

The strike ended without any agreement with management when it became clear to the strikers that workers elsewhere were not coming out in their support and there was no chance that their main demand, the return of Solidarity, would be met.

This demand, the strikers' statement said, was still the main issue, for which they would continue to struggle.

"We decided to make a sovereign decision to leave the shipyard without an agreement with the authorities," said a statement read at St Bridget's church.

"We are convinced that we were right in the protest against relations in Poland, against treating us in a way that violates human dignity, against the arrogance of the authorities who are responsible for the crisis."

Meanwhile, Poland's official unions have persuaded the Government to back away from plans to ban all strikes under the official labour code.

But Mr Jerzy Urban, the government spokesman, said no labour protests of any kind would be permitted against sweeping emergency legislation to be debated in the Parliament today.

The face-saving formula allows trade union MPs whose unions had opposed the ban on labour disputes but who are mostly Communist party members, to support the legislation which is to remain in force until the end of this year.

The special regulations include provision for a prices and wages freeze as well as government-ordered reductions in company employment and merging, partition or liquidation of individual enterprises.

● Soviet leader Mikhail Gorbachev said in a speech released yesterday that his "perestroika" restructuring had created mass turmoil. In a speech on Saturday to newspaper and journal editors, he said many Communist Party members were unprepared to implement "perestroika."

However, Mr Gorbachev stressed the turmoil stemmed more from people being confused or panicking than being outrightly opposed to the reforms.

First Boston, Crédit Suisse step up talks

BY RODERICK ORAM IN NEW YORK AND STEPHEN FIDLER IN LONDON

THE CREATION of a global investment banking firm is being discussed by First Boston, the Wall Street securities house which has sustained significant trading losses in its mortgage securities division and has been wracked by defections, and Crédit Suisse, a leading Swiss bank.

The talks, acknowledged publicly yesterday by both Crédit Suisse and First Boston, include senior management at Crédit Suisse First Boston, their jointly-owned operation which has had a dominant role in the London-based international securities markets for much of the 1980s.

A statement issued by the two firms said managements were discussing "the creation of a global investment banking firm from the worldwide activities" of First Boston and Crédit Suisse First Boston. A "restructuring of the ownership of First Boston and CSFB" was also being explored.

CSFB, 60 per cent owned by Crédit Suisse and 40 per cent by First Boston, is in turn the largest shareholder in First Boston with a 40 per cent stake.

Tensions between CSFB and First Boston, one of the largest Wall Street firms, has been growing in recent years as the increasing internationalisation of markets has created overlaps in their businesses.

CSFB, responsible for most of the group's securities business outside North America and Australia, and First Boston have tried to address these problems. But this has not put an end to arguments over the division of labour and profits.

First Boston executives confirmed that all the firm's activities, domestic and international were on the negotiating table. Its shares, which have risen markedly in recent days, leapt $2¾ to $31⅞ in early trading yesterday.

While all three parties refused to speculate on the outcome of the talks, Wall Street analysts outlined possibilities ranging from a simple redivision of responsibilities between CSFB and First Boston, to a larger Swiss stake in the US firm or a total merger of CSFB and First Boston. Alternatively, executives and employees who own 15 per cent of First Boston's stock might try to take it private.

First Boston has been badly shaken over the past year by an internal debate about strategy. Many of its senior investment bankers argued it should narrow its focus to profitable fee-based activities such as mergers and acquisitions. Other employees argued it should maintain a full range of services including low-margin securities trading.

Like many other Wall Street firms, fast growth through the 1980s saddled First Boston with high costs and inadequate management systems which led to some expensive mistakes in securities trading. It has been working hard to correct these deficiencies but net profits continued to fall in the first quarter ended March to $42m from $76.2m a year earlier.

Profile, Page 25

Warner set to buy Lorimar for $680m

BY JAMES BUCHAN IN NEW YORK

WARNER Communications, the big US film, television and music group, is poised to gain control of Lorimar Telepictures, the Hollywood studio troubled by an erratic performance and vain attempts at diversification.

The deal, worth about $610m in Warner stock, marks the continuing consolidation of the Hollywood industry as a handful of well-financed giants.

Lorimar, best known for making such television series as Dallas, said yesterday that it agreed to sell its business for Warner stock in a deal which values Lorimar at about $13¾ a share at yesterday's prices.

The group said it was still open to a higher offer of at least $15 a share, but Wall Street considers it unlikely to receive such a bid.

The deal propels Warner, which is strong in full-length feature films, to the forefront of television programming. "The acquisition of Lorimar Telepictures will expand Warner's already broad base of leadership in the entertainment industry," said Mr Steven Ross, Warner chairman.

Lorimar, formed from the merger of two studios in 1986, is the leading supplier of pro-

Continued on Page 24

CONTENTS

Mr Raul Gardini, Montedison chairman, whose restructuring plan is opposed by the US chemical concern, Page 22

DOW CHEMICAL STIRS UP TROUBLED ITALIAN WATERS

EUROPEAN NEWS

Beleaguered Yugoslav PM shuffles his cabinet

By Margaret Van Hattem and Aleksandar Lebl in Belgrade

YUGOSLAVIA'S Prime Minister, Mr Branko Mikulic, who faces a crucial vote of confidence in Parliament on Sunday, last night reshuffled his cabinet in an attempt to streamline federal administration of the economy, an issue on which his performance has brought widespread criticism.

At the same time, the Defence Secretary, Admiral Branko Mamula, who has reached retirement age, will be replaced by his deputy, Colonel General Djordje Kadijevic.

By convention, the Federal Parliament subjects Prime Ministers to an assessment half way through their term of office. It is usually a routine procedure resulting in his or her reconfirmation. This weekend, however, parliament is expected to put the matter to a vote.

Mr Mikulic is generally expected to survive, although several MPs are likely to vote against him or abstain. The republic of Slovenia has instructed its federal MPs to withhold their support for Mr Mikulic because of the economic crisis and his apparent inability to deal with it. MPs from other republics may join them.

Among the most important changes is the creation of new Secretariat for External Economic Relations to take over functions of the federal Secretariat for Foreign Trade and parts of the functions of other agencies, such as the Committee for Energy and Industry. A Secretariat for Economy will also be created.

The new Secretary for External Economic Relations will be Mr Nenad Krekic, currently Foreign Trade Secretary. The federal secretary for the economy will be appointed later.

The president of the Federal Committee for War Veterans and War Disabled, Mr Ilija Vakic, a Serb from Kosovo, who has been much criticised in connection with developments in that province, has asked to be relieved of his function. He will be replaced by another Kosovo Serb, Mr Milan Sestija.

Mr Mikulic told a meeting of the Socialist Alliance Of Working People of Yugoslavia that he originally intended to change more of his cabinet but that in view of the forthcoming vote of confidence in Parliament he abandoned more complex changes.

WEST GERMAN MINISTERS PUT PRESSURE ON EUROPEAN COMMISSION

Bonn tries to divert EC truck plans

BY DAVID BUCHAN IN BRUSSELS

THE West German cabinet yesterday took advantage of an unprecedented joint meeting here with the European Commission to try to talk the latter out of road haulage liberalisation plans which Bonn opposes bitterly.

The joint session was the first time an EC government had taken virtually its entire cabinet for discussions with the Commission, and was billed by both sides as setting a possible precedent for other governments.

But, after the phalanx of West German ministers concentrated half the entire two and a half hour discussion on road haulage, it became clear that Bonn's aim was to steamroller the Commission into dropping its proposal for a definitive end to the system of travel quotas for trucks in the Community.

Chancellor Helmut Kohl said after the meeting that "liberalisation (in road haulage) must go along with harmonisation to produce equal conditions for drivers". Bonn has won the acquiescence of 10 other member states in refusing now to give a firm commitment to halt by the end of 1992 the cumbersome country-to-country licensing that governs more than half intra-Community trade. Demanding parallel EC harmonisation of road tax and safety rules up to West German standards, Bonn at this stage is only ready to agree to enlarge the number of quotas by 40 per cent a year.

Only the UK still backs the Commission call for definitive quota abolition by 1992. In conjunction with its tactics yesterday, Bonn has dropped hints that if Britain does not change its stance on truck quotas and power station emissions, it may use its role as current president of the Council of Ministers not to push too hard for a capital liberalisation directive due for decision next month.

Mr Kohl yesterday reiterated publicly that capital liberalisation was a priority of his EC presidency, but some in Bonn calculate it may be even more important to the British, and thus a potential bargaining lever.

Bonn can only get the UK outvoted in the Council of Ministers if it first persuades the Commission to change its position. To overrule the Commission on a matter like road transport requires unanimity among member states.

The Commission has rejected a German compromise for the Community simply to commit itself to deciding by October 1992 whether, then, to decide to do away with truck quotas altogether. For its part, Bonn has refused a Commission proposal that the state of the EC road haulage industry be reviewed as quotas are progressively enlarged and any complaints by German truckers then considered.

Employers reject EC merger control plans

BY WILLIAM DAWKINS IN BRUSSELS

THE LEADING EC employers' group has withdrawn its support for the European Commission's redrafted plans for a Community-wide merger control regulation on the grounds that they are too vague and fail to take full account of its comments.

Unice, the federation of EC employers' organisations, says in a paper released yesterday that until Brussels takes account of "many basic points . . . Unice cannot approve the proposed regulation". While Unice still supports the principle of an EC-wide merger control to stop abuses of dominant positions and to override the often conflicting national rules that now exist, its criticism of some of the details could complicate the Commission's efforts to persuade member states to agree to the controversial proposal.

The employers had been one of the regulation's strongest supporters, a fact used by Mr Peter Sutherland, the European Commissioner for competition policy, to try to win over sceptical member states such as France and the UK. A senior Commission official said most of Unice's criticisms were theoretical and that there should be little difficulty in reaching an accord with the employers.

Under the proposal, almost any cross border merger with a combined annual turnover of Ecu1bn (£660m) or more would have to be cleared in advance by the Commission, which would have the power to block or make changes to mergers likely to distort free competition.

The Unice position paper sent to the Commission says it is "unacceptable" for Brussels to have the right to block a merger merely because it changes the competitive structure, as proposed in the new regulation.

Instead, argues Unice, the veto should be confined more specifically to mergers that strengthen dominant positions and so impede free competition. It also wants the Commission to make it clear that it will not try to use existing competition rules to block mergers not covered by the regulation. Unice, however, also wants Commission decisions to take precedence over national anti-trust action.

Britain fights aid for French textiles

By Alice Rawsthorn

THE BRITISH textile industry has appealed to the European Commission to block a French proposal to give state aid to a textile group in north-eastern France.

The French Government plans to provide FFr5m (£470,000) to Filature du Haimont, a man-made fibre producer in Valenciennes to help build a production plant for polypropylene filament yarn.

But the British Textile Confederation wants the proposal blocked, saying it would "fly in the face" of the EC guidelines on the provision of state aid to man-made fibre producers and could jeopardise the stability of the European fibres industry.

Mr Ian MacArthur, director of the Confederation, said that "fair competition is one thing and the British textile industry has no reason to fear it. But subsidised competition is entirely different".

Such lobbies against allegedly unfair state aid are quite common in the European textile industry. The last serious issue, which occurred earlier this year, concerned complaints by other member states about assistance from the Belgian Government to a carpet company.

Soviet economists castigate central planning system

BY QUENTIN PEEL IN MOSCOW

A DAMNING criticism of the entire system of centralised planning in the Soviet economy, blaming it for creating simultaneously excess stocks and chronic shortages, has just been published in a leading Moscow magazine.

The 26-page article by two prominent economists goes well beyond the bounds of the present debate on Mr Mikhail Gorbachev's economic reforms, rejecting also the possibilities of more limited "indicative planning", and arguing for a move to a very large measure of market forces to galvanise the economy.

It cites a whole host of examples to prove that central planning has failed: "the disproportions are growing from year to year, and involve losses which no market economy has known in the deepest of crises," they say.

One of the authors, Nikolai Schmelev, has already shocked the economic establishment in two previous articles, calling for temporary unemployment to ease the redeployment of "superfluous labour", and advocating gold sales to finance the imports required to buy time for the perestroika process.

He has hitherto gone unreprimanded, and indeed his views have been republished by other official media. However, his latest contribution, with fellow economist Vladimir Popov, in the magazine Znamya, amounts to his most comprehensive indictment yet of the planning process which is at the heart of the Soviet economic system.

In it, the authors declare that the continuous shortages suffered in every sector are not an aberration, but a direct consequence of the central planning system.

The combination of an enormously detailed central production plan, outlined by Gosplan, and a resource allocation plan dictating exactly what inputs each factory will receive, results in a permanent and chronic imbalance between sectors.

"The whole point of planning is to form a balanced plan in which all items are co-ordinated," they say. "In practice, the task was impossible because of the immense scale.

"Contemporary computers can solve such problems only if the number of unknown factors can be measured in hundreds. In fact the product range (involved in the Soviet planning process) is not hundreds or even thousands, but tens of millions.

"Not even a thousandth part of what is actually planned and produced is co-ordinated . . . Prices year in, year out, that firm, non-revisable plans will be given to ministries and enterprises are a transparent fiction."

The authors go on to spell out some of the costs of the lack of balance within the system, in terms of factories forced to abandon product specialisation to produce inputs they cannot obtain from outside, and a massive diversion of manpower into repairs rather than production.

Because repair operations are demanded in the plan, some managers send perfectly good machines to be repaired at the end of the year, merely to meet a plan target.

At the same time, they pinpoint the need for industry to carry huge inventories — "unneeded goods from exaggerated plans pile up in the warehouses."

In late 1985, stocks in industry peaked at over Roubles 400bn (£414bn) or over 50 per cent of national income, and if the stocks on collective farms are added, they totalled more than 80 per cent of national income — "almost as much as we make in a year".

"In our retail network, inventories exceed quarterly turnover, and yet we are always short of something . . . Excessive inventories and shortages are two sides of the same coin."

The authors then proceed to dismiss arguments in favour of indicative planning, based on fixed prices and standards, as a viable alternative. "Mistakes in fixing prices and normative standards can cost just as much as yesterday's and today's omissions in directive planning . . . administrative price-setting remains arbitrary, against economic reality and can only lead to much more disproportion than market price formation," they say.

On the face of it the authors would appear to be close to economic heresy in the Soviet Union, but the very fact that their work has been published in a leading Communist journal may help to shift the party debate further towards greater acceptance of market forces.

Bundespost reform limps towards its final hurdle

BY DAVID GOODHART IN BONN

THE West German Government has too much of its dwindling credibility at stake to allow the long-incubated Bundespost reform to be stymied in the final, parliamentary, stage of its journey, which begins in the next few days.

Cynical supporters of more vigorous deregulation of the country's post and telecommunications system would, no doubt, contend that there is nothing of substance left for opponents of reform to block. But, while it is true that the proposals, which will today pass through the cabinet, fall short of privatisation, or even competition on the basic telecommunications network, they are, by West German standards, an important first step towards a more customer-orientated service. They should be law by the middle of next year.

Until recently the only real impetus for Bundespost reform has come from outside; from the EC and from a US Government irritated by a chauvinistic procurement policy. But West German business has lately woken up to just how antique and expensive the telecommunications infrastructure has become and what a serious disadvantage this could be, especially after 1992.

There is in fact something approaching consensus, outside the postal unions, supporting the proposed combination of continuing monopoly in the basic service and competition in the new value-added services. There is even widespread support for what is probably the key reform — splitting the Bundespost into three separate businesses: postal, postbank and telecommunications.

However, other details of the reform package have caused sufficient offence to powerful interests to require several concessions to ensure safe passage through both the cabinet and then the two houses of Parliament.

The Finance Ministry was worried that the reformed taxation of the Bundespost would rob it of DM2bn-DM3bn (£630m-£950m) a year, and that has now been pushed back until 1996. The Interior Ministry has also worried about the implications of tying some Bundespost employees' pay to performance, but it, too, appears to have been placated.

More serious has been the objections of the Länder governments — chiefly the Social Democrat-run states in combination with recalcitrant right-wing Bavaria — who were stripped of much of their say in the formation of Bundespost policy. They also appear to have clawed back some representation and should allow the legislation to pass through the upper house of Parliament.

These are probably not crucial concessions. More worrying for businesses considering competing with the Bundespost on value-added services is the vagueness of the rules on cross-subsidisation.

For many businesses as consumers, the re-balancing of tariffs between local and long distance will not do enough to reduce their costs. But the key to an improved service lies in the development of a new management culture in the independent telecoms business, a matter which is beyond the scope of legislation. Some observers believe that the combination of some competition and greater autonomy will transform the business, others just see more consumer-defying empire building.

As with its other reforms the Government faces the difficulty that those hurt by reform feel it in a more immediate and concentrated form than the beneficiaries. The 500,000-strong union is better organised than the mass of telecommunications consumers, and has barely begun its campaign.

In procurement, too, the Bundespost admits there is further to go. The big groups like Siemens, which have arguably been held back by their cosy relationship with the Bundespost, are well prepared, but many smaller companies stand to lose a lot of business and will be tugging at the heart-strings of "their" Christian Democratic-led Government. But Chancellor Helmut Kohl has gone too far to throw away what remains of the reforms.

UK pacts, Page 6.

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Paris-Bonn deal 'key to European unity'

BY PETER BRUCE IN MADRID

A TRADE-OFF in monetary and defence policy between France and West Germany could be the real key to achieving a united Europe, Dr Garret FitzGerald, the former Irish Prime Minister, said here yesterday.

Addressing a conference organised by the Financial Times and the Spanish business daily, Cinco Dias, Dr FitzGerald suggested that the basis for such a deal already existed.

West Germany was nervous about the withdrawal of US missiles from Europe under the Intermediate Nuclear Force treaty agreed between the Soviet Union and the US, and France (which could extend its independent nuclear umbrella to West Germany) urgently wanted changes in West German monetary policy. Defence and monetary policies were "ultimately the keys" to unity, he said.

FT CONFERENCE
Business with Spain

Dr FitzGerald, betraying less than total confidence in the ability of European Community governments to perfect the single European market by its 1992 target date, warned delegates that other attempts to combine the principles of free trade, pegged exchange rates (as they are in the European Monetary System), independent macroeconomic policies and free capital movements had failed.

"If you have the first three you cannot have the fourth, and if you have the fourth you cannot have the other three," he said. "It is arithmetically impossible for the thing to work any other way."

Under the single market, the EC will be committed to freeing capital movements and, he said, "real integration comes when governments lose their power to take independent action. If governments insist on controlling macro-economic policy then exchange rates are put at risk if you have free capital flows."

For his part, Mr Christopher Roberts, deputy secretary in the UK Department of Trade and Industry, attacked the notions that the united market was not achievable by 1992.

He said the "three heresies" put about by cynics and pessimists were that governments would argue so much among themselves that the target would not be reached, that the single market would increase the volume of EC regulation and that it would lead to a Fortress Europe with no internal barriers but which would protect itself from third country competition.

Mr Mario Conde, chairman of Banco Credito de Espanol, said the presence in Spain, already, of 47 foreign banks (which had taken 14.75 per cent of the credit market), and increasing internal competition were pushing the bigger local banks in a number of directions.

Referring to a recent trend towards mergers in Spanish banking, he said banks had to decide for themselves how big they needed to be. Their business strategies would determine their size. He also warned against banks selling off the branch networks during the run-up to 1992 and urged Spanish banks not to ignore the need for greater human and technological capital.

Those human resources, said Mr Robert Dabiel, president of AT&T Europe, were available in great quantity in Spain. "The level of scientific training provided by university programmes in Spain is outstanding," he said.

When AT&T was planning to hire engineers for its chip-making venture with Telefonica outside Madrid, Mr Dabiel said the company had designed an 18-24 month programme. So quick were local engineers in mastering the new technology, however, that the course was cut by half.

The company was offered generous incentives to come to Spain and "the deep commitment of the Spanish Government to attract state-of-the-art technology has created a climate that is highly favourable to corporate investors like AT&T," he said.

Mr Fernando de Asua, president of IBM Espana, said growth in the Spanish economy opened up huge opportunities. The information technology market was still less deeply penetrated than the rest of Europe, he said. About 1.7 per cent of Spanish GDP was being spent on information technology, compared with an average 3 per cent in the rest of Europe.

One difficulty in Spain was that its industry was small and fragmented. Of all Western European companies employing more than 1,000 people, only 5 per cent were Spanish. Of companies employing less than 20 people, nearly 10 per cent were Spanish. There was much room for growth in the public sector market, which represented only 18 per cent of total Spanish information technology sales — almost half the European average.

Mr Juan Antonio Diaz Alvarez, chairman of SEAT, the West German-owned car producer, noted that Spain was now the sixth largest car producer in the world — ahead of the UK — and that the market was growing at a furious rate. Sales grew by 10.5 per cent in 1985, 21 per cent in 1986 and by 34 per cent last year.

Costs in the industry were being brought down sharply as well. The workforce fell 11,000 to 76,000 between 1980 and 1987, while production rose 47 per cent.

Setback for Greece as trade gap widens

By Andriana Ierodiaconou in Athens

GREECE'S CURRENT account deficit rose to $1.038bn in the first three months of this year, compared to $752.1m in the same period last year, partly reflecting a continued deterioration in the trade balance.

The rise was described by the National Economy Ministry as 'seasonal' and attributed to a pick-up in investment following the Government's economic stabilisation programme, as well as to increased interest payments on defence loans.

However, the poor results underscored warnings in the annual Bank of Greece report on the economy, released at the end of April, about the country's balance of payments.

The figures also showed a 21.4 per cent increase in import costs in the January-March period relative to last year, against an increase of only 11.1 per cent in export earnings. As a result Greece's trade deficit widened to $2.028bn, from $1.571bn in the first three months of 1987.

By contrast, invisible earnings from tourism, shipping and European Community receipts continued to do well, generating an invisible surplus of $990m, almost 21 per cent higher than in the same period last year.

Meanwhile, in an attempt to keep down public sector deficits, the authorities this week announced sweeping price increases on a range of public services. From June 1, the cost of household electricity will go up by 6 per cent, telephone rates by about 7 per cent, water by 12 per cent, postal rates by up to 14 per cent, rail fares by about 15 per cent and domestic air fares by 9 per cent.

The Bank of Greece report had warned that the public sector borrowing requirement was "tending to stabilise" at 13 per cent of gross domestic product, exerting pressure on the balance of payments, inflation and investment. For 1988 the Bank predicted a drop of 1 per cent of GDP in the PSBR from 13.5 per cent in 1987. This reduction was described as "not only inadequate but requiring co-ordinating and constant efforts if it is to be achieved."

Richard Cowper, recently in Semdinli, reports on a violent opening to this year's guerrilla campaign

Turkish army takes initiative in war against Kurds

FEARS EARLIER this year that a power vacuum in Kurdish north eastern Iraq might add a dangerous new dimension to Turkey's own war against Kurdish guerrillas have now disappeared.

But if the opening months of this year's Kurdish guerrilla campaign in Turkey are any indication, 1988 could be the bloodiest year yet in the bitter four-year independence struggle of the Marxist Kurdish Workers Party (PKK).

The PKK started its attacks at the end of March, as the winter snows began to give way to spring. Since then almost 100 people have been killed in the 11 wild and mountainous south eastern provinces which are still under a state of emergency. The death toll in this often fratricidal and little reported guerrilla war has risen to over 1,000 in the last four years.

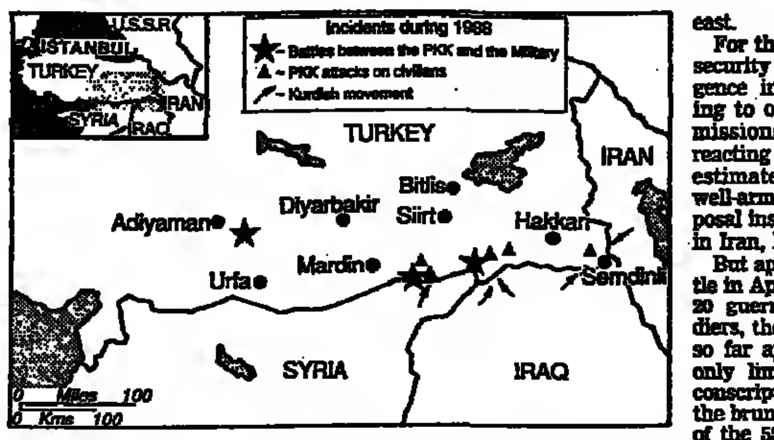
There is no general rebellion among Turkey's Kurdish population and it is generally agreed that there is no chance of the PKK alone winning its struggle to create a separate state. Turkey is home to about half the 20m Kurds who live in a region where the borders of Turkey, Iran, Iraq and the Soviet Union converge, and there is little evidence of close military co-operation between the PKK and mnch stronger Iraqi and Iranian Kurdish guerrilla groups.

But in March the Turkish Government became deeply concerned that Iranian-backed Kurdish successes in north eastern Iraq might lead to the setting up of an independent but Iranian-controlled Kurdish state on its own borders. This, they feared, might have inspired a far larger number of its own Kurds to join the PKK and closer military links with its new Kurdish neighbour.

Iraqi success against Iran and its own Kurdish guerrillas has convinced Ankara that the danger has all but disappeared, but the PKK still poses a powerful threat to a government searching for a military and political solution to a problem which has plagued it since the founding of the Republic in 1923.

The Turkish Government's attitude to Kurdish nationalism still seems largely conditioned by its 19th century experience in dealing with breakaway movements. Throughout the 70-odd years of the Republic it has therefore strongly discouraged any form of local or ethnic identification.

When Kurdish nationalism erupted as a serious political force in the 1970s, the civilian government turned a blind eye to some of its manifestations, allowing Kurdish language newspapers and music cassettes to circulate semi-clandestinely, even in the big cities. A policy of economic development to hring



roads, electricity, television and irrigation to the country's most underdeveloped region was also set in train.

But much of this was anathema to the military. They forced the social democrat government of Mr Bulent Ecevit to impose martial law in April 1979 and moved steadily to crush any visible manifestation of Kurdishness, throwing all identifiable Kurdish leaders (inclnding one of Mr Ecevit's ministers) into gaol.

The military in effect staked everything on a policy of violence. The response, after several years of more moderate leaders, was the appearance of the violent PKK as a powerful single force in what had been a highly divided political scene.

When the Turkish PKK launched its first attacks in August 1984 the authorities and the army were caught totally unprepared and soldiers with no experience of fighting a guerrilla war were widely seen to have been incapable of dealing with the problem.

The authorities have now set up special police commando units which have organised an intelligence network and launched a village militia protection movement which is said to have 10,000 armed members.

In July last year the Government appointed Mr Hayri Kozakcioglu, an ex-Istanbul police chief with an intelligence background, to co-ordinate policy in the south east.

For the first time this year the security forces, acting on intelligence information, are attempting to operate seek-and-destroy missions rather than simply reacting to attacks from the PKK, estimated to have over 1,000 well-armed guerrillas at its disposal inside Turkey and in camps in Iran, Iraq and Syria.

But apart from one pitched battle in April in which troops killed 20 guerrillas and lost four soldiers, the Turkish security forces so far appear to have met with only limited success. A mainly conscript army still has to bear the brunt of the security role and of the 55,000 or so men believed to have been put in the field specifically to deal with the PKK, most are relatively inexperienced soldiers.

A tour through the region from mountainous Semdinli in the far south east (wedged in by Iraq on one side, Iran on the other), to Siirt, north of the border with Syria and the capital of Diyabakir to the west, is to travel through classic guerrilla country.

The valleys and plains bristle with army camps, police checkpoints and military airports, while the hills and mountains, rising in places such as Hakkari to over 14,000 feet, offer summer grazing for countless flocks of sheep and provide a home to eagles and guerrillas alike.

Mr Abdullah Oecalan, the leader of the PKK and reputed to live in the capital of neighbouring Syria, has been quoted as saying that this year he will take the war into Turkish cities and tourist resorts in the west, some of which have large Kurdish immigrant populations.

So far there have been no major attacks outside the south east, but on May 1 security forces surrounded and killed two PKK guerrillas in an Istanbul slumhouse in the district of Okmeydani.

The authorities argue with some conviction that a terrorist campaign in the cities will be much harder to organise than in the wild mountainous countryside of the south east where the PKK has s level of support from the local population, the majority of whom are Kurds. But senior army commanders are said to be treating the threat seriously – last summer there was a Kurdish attack on an Istanbul police station.

The chances of the Kurds ever winning a national homeland in Turkey are tiny. But in a country where one-fifth of the population is said officially not to exist and is not allowed under penalty of imprisonment to speak its own language, print or read books in Kurdish or even to organise cultural groups, the issue has the potential to remain a bloody thorn in the side of the Republic for decades to come.

Dissident sees opposition growing to the Soviet state

BY LESLIE COLITT, RECENTLY IN MOSCOW

MR LEV TIMOFEYEV is sparing in his praise for Mr Mikhail Gorbachev whose *glasnost* and *perestroika* reforms have led to greater official tolerance of independent thought – despite the most recent crackdown.

"Yesterday, I went to the post office and sent a telegram to Gorbachev without having to show my passport (identity papers). That is some progress – you can send a telegram – but that is all," he insisted in an interview held before he and others attempted at the weekend to set up a new Soviet political party, the Democratic Union.

Mr Timofeyev, a 51-year-old writer with a flowing Russian beard and a physique like a lumberjack, spoke with contempt of the Communist system which he regards as being beyond reform.

"The changes proclaimed by the leadership confirm my analysis," he said. "The nightmare of Communist ideology is increasingly mysterious for the Russian people." No organised opposition to the Soviet state yet existed, he admitted, but there was growing "verbal opposition" in all levels of society.

Shortly after his release from a labour camp last year, Mr Timofeyev founded Pressclub Glasnost, the Soviet Union's most active human rights monitoring group. Ironically, a few days after Mr Gorhachev assumed power in March 1985, Mr Timofeyev was sentenced to 11 years internment for publishing in the West analyses of Soviet society.

Along with thousands of other political prisoners he was pardoned under Mr Gorbachev's policy of emptying the labour camps. According to Mr Timofeyev's estimate some 300 Soviet citizens remain in prison, including psychiatric hospitals, for political reasons. But the number was decreasing each month.

In his tiny Moscow flat, crammed with books and manuscripts, Mr Timofeyev edits a publication called *Referendum* which he puts out with the aid of a Western word processor. As a *Samisdat* (underground) magazine, it can none the less be found in the furthest reaches of the Soviet Union.

Was it not an improvement that the authorities now tolerated him and other domestic critics? It was not so simple, he replied. The authorities never forgave him after his release from labour camp. "I am still regarded as a criminal," he said.

Although he was not subjected to direct suppression – "no one comes to my flat" – he was unable to get a joh despite his background as an economist, journalist and literary critic. He was regnlarly visited by the police and asked why he did not work. An article he wrote on Andrei Voznesenski's poetry was accepted last year, he said, by three influential members of the editorial board at Novy Mir, the literary journal, but had still not been published.

Yet he grudgingly admitted that the opposition in the Soviet Union had "greater chances" under Mr Gorhachev than in the past. He suggested the reason was that the Soviet Government wanted to be considered "civilised and tolerant"

Last December he and Mr Sergei Grigoryants, the publisher of the independent newspaper *Glasnost*, organised a seminar on human rights which was well attended by Soviet and East European citizens despite the authorities attempts to prevent participation. Mr Grigoryants, who also attended last weekend's meetings, was jailed for seven days yesterday for his pains, his wife said.

The leadership, said Mr Timofeyev, was torn between the urge to suppress such independent public activities and to allow them in a "channelled form".

Mr Timofeyev said the nationality question was the most serious one facing Mr Gorbachev, who, he asserted, did not know how to cope with the problem. "For 70 years the party considered nationality problems unimportant and suppressed them," he said. Paradoxically, he said, the eruption of the ethnic conflict in Armenia and Azerbaijan last February was a sign that "life was better" as the "illness" had become clearer.

He recalled with pride that he was the first person to inform the West on February 22 about the massive demonstrations in Yerevan, the Armenian capital. The next day and for weeks afterwards he was unable to reach Armenia or the West by telephone.

"So much for *glasnost* and *perestroika*," he remarked.

Blow to progress at security conference

By Judy Dempsey in Vienna

PROGRESS AT the Vienna follow-up meeting on the Conference on Security and Co-operation in Europe (CSCE) suffered a setback this week after the neutral and non-aligned countries drew up a paper regarded by the West as too accommodating to the Warsaw Pact countries, especially in human rights.

They also argue that as a result, the conference, which is part of the Helsinki Final Act process, will be prolonged well into the summer, having already missed several deadlines since it first convened in November 1986.

The paper will be presented on Friday to the 35 participating countries of the CSCE which include the Soviet Union, the United States, Canada and all the countries of Europe, expect Albania.

The NNA drew up the paper with the aim of reaching agreement on a concluding document. However, several Western delegates describe it as "too weak" and falling well short of expectations.

Several Nato countries criticise the NNA for considering "Eastern demands" and for failing to close loopholes such as human contacts, failing to impose tighter timescales on official responses to applications to travel abroad and for the general nature of the document.

"This is a levelling down document in the sense that it does not substantially build on earlier draft documents," one Western diplomat said.

Meanwhile, the informal "conventional stability talks," which are taking place in Vienna between the Warsaw Pact and Nato countries within the framework of the CSCE, continue to make steady progress.

However, a mandate for formal talks on reducing conventional forces in Europe requires a mandate from the CSCE. Several Western delegates say that unless there is a "balanced outcome" in the military, economic co-operation and in the humanitarian spheres at the Vienna follow-up meeting, a mandate will be difficult to attain.

"The NNA paper is not a balanced document. It is too much of a compromise in the humanitarian field and we will not go along with it at this meeting," a Western diplomat argued.

from Bunzl at 420p a share in 1986, has for the second year running reported a downturn in profits.

Results for the year ended December show a pretax profit of £11.55 million against £12.59 million in 1986

encouraged by the strength of the pound, are showing a sharply increased interest in acquisitions in mainland Europe.

The latest figures show that their enthusiasm for the United States also remains undiminished.

Financial Advisers

1. Goldman Sachs Int (12)
2. Morgan Grenfell (1)
3. Shearson Lehman
4. Kleinwort Benson (4)
5. Schroders (3)
6. N M Rothschild (10)
7. Lazard Brothers (9)
8. Lazard Freres (16)
9. S G Warburg (2)
10. Samuel Montagu

Chile air force chief calls for open poll

By Mary Helen Spooner in Santiago

CHILEAN Air Force Commander General Fernando Matthei has said he would prefer open elections to the one-man presidential plebiscite planned this year, but warned opposition groups that even if voters reject the government candidate the regime's constitution would remain in effect.

Gen Matthei, who along with the commanders of Chile's navy and national police, is known to oppose any extension of Gen Augusto Pinochet's presidency, said this shortly after returning from the US on Monday. He attended an inter-American air force conference in San Antonio, Texas, and was also scheduled to meet US Secretary of State Mr George Shultz and Defence Secretary Mr Frank Carlucci in Washington last Thursday.

However, Gen Matthei cancelled these meetings, giving rise to speculation that he had been pressured to do so by Gen Pinochet. The Chilean air force said that Gen Matthei had wanted to keep his US visit a "strictly institutional one."

Gen Matthei declined to comment on the cancelled meetings, but denied he had acted under pressure. Two days before the scheduled appointment with Gen Matthei, Mr Shultz met Mr Patricio Aylwin, president of the Christian Democrats, Chile's largest opposition party.

The Christian Democrats in Santiago praised Gen Matthei's decision, saying that it demonstrated his intention to return the air force to an apolitical role.

Hostages freed in Colombia

LEFT-WING guerrillas protesting against foreign exploitation of Colombia's oil have released most of the 15 foreigners and journalists they kidnapped last week, Reuter reports from Bogota.

It was the second wave of kidnappings by the pro-Cuban National Liberation Army (ELN). Last February, it captured a dozen local mayors.

The majority of hostages freed on Monday, including West German, French, Swiss and Swedish citizens, said they were well treated.

Nancy Dunne reports on problems holding up the negotiations

Ratification fears stall INF treaty

THE US Administration yesterday played down concerns about the Intermediate Nuclear Forces Treaty after the Senate postponed debate on the treaty, claiming there were serious obstacles to ratifying it.

The Administration has pinned its hopes for a swift ratification on meetings today and tomorrow in Geneva between Mr Eduard Shevardnadze, the Soviet Foreign Minister, and Mr George Shultz, the US Secretary of State. Mr Shultz will be accompanied by Mr Colin Powell, the national security adviser who is in charge of summit arrangements.

Senator Alan Simpson of Wyoming, one of a group of Republican senators who met President Reagan yesterday, said: "I think they will do their usual good job of splicing things back together again."

Time is short, however. Even if the Geneva meeting produces agreement over verification issues, the Senate may have only 10 working days for debate.

INF ratification has run into difficulty on two levels. First, there are verification issues, which trouble both the Administration and Congressional leaders. Second, there are more political considerations, growing out of the generally poor relations between Congressional Democrats and the White House. The Administration had hoped the appeal of arms control would free the pact from partisan wrangling.

Mr Marlin Fitzwater, the White House spokesman, said that dissension over verification had emerged during technical talks, when American and Soviet negotiators were considering how to implement the treaties and sought to finalise rules over on-site inspection. He insisted that such difficulties were "bound to come up."

On Sunday, Mr Yuri Dubinin, the Soviet ambassador, met State Department officials in response to American requests for clarification on nine verification issues.

After a flurry of meetings on Monday between various members of the armed services, foreign relations and intelligence committees and Administration officials, all apparently agreed not to go forward with the debate in the Senate.

One dispute, for example, deals with the use of monitoring equipment at inspection sites and whether the Americans have the right to use cameras during inspection.

Another surrounds a US demand that inspectors can examine the inside of Soviet structures and vehicles large enough to conceal small rocket stages but not large enough to hide an entire missile. There is also a dispute over the boundaries around inspection areas.

Even if the verification issue can be resolved, there are other disputes between the White House and some senators over the treaty concerning whether or not it will ban so-called futuristic weapons. Mr Fitzwater said: "We intend to discuss that with the Soviets and get a note which we hope will be acceptable."

Another stumbling block is the dispute over whether the treaty could be reinterpreted by a future administration, as this Administration has tried to reinterpret the Anti-Ballistic Missile Treaty in order to conduct Star Wars tests.

Senators can still derail the process if they wish to. On Monday, Senator Robert Byrd, the majority leader, turned partisan and raised the issue of the 1988 Trade Bill. He said Congress could be too busy trying to override the President's expected veto to finish the ratification debate in time for the Senate.

"May 29 is just a date on the calendar. It means absolutely nothing to me or this Senate," Senator Byrd told reporters.

In addition, a small group of treaty opponents, led by Senator Jesse Helms, a North Carolina conservative republican, is expected to propose a series of amendments which would delay the debate.

George Shultz: meeting Mr Shevardnadze in Geneva

No signs of economic recession on US horizon, says Sprinkel

Soothing words on price rise fears

MR Beryl Sprinkel, chairman of the White House Council of Economic Advisers, said he does not expect a sharp rise in prices and foresees inflation of no more than 4 per cent this year, Reuter reports from Washington.

"I do not see a sharp acceleration in inflation," he said in an address at Eastern Connecticut State University. He said the Administration expected inflation to be at or below 4 per cent by the year's end, a figure he said President Reagan believes is still too high.

"It would be better if we could get it down to zero," he said. Mr Sprinkel said inflation fears were overemphasised and described the increases in the consumer price and producer price indices in March as aberrations.

Consumer prices rose 0.5 and producer prices rose 0.6 per cent in March. Economists said this pointed to signs that inflation may be creeping higher.

"One month's blip does not a trend make," Mr Sprinkel said.

Beryl Sprinkel: signs that US deficit is improving

Although Mr Sprinkel saw a possible temporary rise in interest rates, he tied the increase to pressures on the money supply rather than inflation. He also said that recent data were consistent with the Administration's projection of real US gross national product growth of 2.4 per cent in 1988.

Ha also saw no signs of a recession on the horizon and said the economic expansion was continuing. "There's no sign at this moment that this one (the expansion) is about to expire," he said.

The President's economic counsel also said US economic conditions were much better than they appeared to be just after the stock market crash last October.

Mr Sprinkel also said he saw signs that the US trade deficit was improving and that demand for US products at home and abroad had improved.

The US trade gap widened to $13.80b in February, from $12.44bn in January, above economists expectations.

● Voters in West Virginia and Nebraska cast ballots in minor presidential primaries yesterday with the Republican nominee already chosen and most Democrats looking ahead to bigger prizes next month, Reuter reports from Charleston.

Only 37 Democratic National Convention delegates were at stake in mountainous West Virginia and 25 in the flat farmlands of Nebraska, states where front-running Massachusetts Governor Michael Dukakis and black civil rights leader the Reverend Jesse Jackson did only token campaigning.

Mr Dukakis leads Mr Jackson by 1,498 to 946 delegates nationally, according to the NBC television network, with only a half dozen primaries remaining before the delegate selection process concludes on June 7 with major primaries in New Jersey and California. A total of 2,081 delegate votes are needed to win.

Mr Dukakis says he has about 1,500 delegates and aides say he may wrap up the nomination in a few weeks, ahead of the party's national convention in Atlanta starting on July 18.

Mexico confident of inflation success

By David Gardner in Mexico City

MEXICAN Government officials believe they can achieve their radical anti-inflation target for this year six months ahead of schedule, after reducing the rate of price rises to 3.1 per cent for April, the lowest monthly increase for 34 months.

The April increase contrasts with record inflation of 15.5 per cent in January, the first month of a "shock" plan to cut monthly price rises to a rate of 2 per cent by December.

Inflation for 1987 was a record 159 per cent, while annualised figures of 430 per cent could be extrapolated from the rate of price increases in December and January.

The Bank of Mexico, which is monitoring inflation every two weeks, said that in the second half of April prices rose 0.4 per cent, while some producer prices for raw materials fell. Central bank officials now expect this month's inflation rate to be on or near the December target.

Though the shock plan – built around an ingenious amalgam of voluntary price controls backed up by cheaper imports – masks some inflation, there are as yet no signs of any serious scarcity of goods which normally accompanies an exercise of this kind.

Canada 'not driving up $'

THE BANK of Canada's shift to a more restricted monetary stance does not involve a deliberate strategy of driving up the value of the Canadian dollar, said Mr John Crow, the bank's governor, Philip Stephens reports from Ottawa.

Mr Crow said that the central bank had no specific target for its currency. He indicated, however, that it was not dissatisfied with tha present balance of both higher interest rates and a higher exchange rate.

In recent months the Canadian dollar has moved up to five-year highs against the US dollar of around 81 US cents, while short-term interest rates have increased from 8.4 per cent in January to 8.85 per cent.

Mr Crow said that industry's investment intentions remained strong.

Brazilian sugar lobby faces fuel price setback

BY IVO DAWNAY AND JOHN BARHAM

BRAZIL'S government is preparing to reduce the crucial price differential between petrol and alcohol fuels in what will amount to the first major revision of its controversial sugar-alcohol programme since its inception in 1975.

Officials informally confirmed yesterday that the National Energy Council now looks certain within a matter of days to approve a 5 per cent reduction in the margin that constitutes the major incentive for Brazilians to run alcohol-powered cars.

Such a decision would represent a major victory for Petrobras, the state oil corporation, in its long battle with the sugar lobby to reduce the programme's costs to the company, estimated at some $100m a month.

It would also signal the first significant setback for sugar producers whose formidable political power, particularly in the impoverished north-east, has given them years of privileged treatment.

While it is fuel consumers not producers who will be hit by the change, the measure will reduce sugar demand as car buyers reconsider purchasing more efficient petrol-powered models.

Brazil is the only country in the world with a major fuel alcohol programme, which now ensures that 90 per cent of all new cars sold each year are sugar powered. The so-called Proalcohol programme was originally aimed at reducing the country's oil import needs and maintaining sugar industry employment.

But it has come in for increasing criticism as oil prices have dropped. Today, sugar-alcohol fuel is estimated to cost the equivalent of $65 a barrel, against less than $30 for oil.

The price of alcohol at the pumps is now fixed at 85 per cent of that of petrol. Petrobras has long been arguing for this to be slimmed to 75 per cent. A figure of 70 per cent is thought more likely to be agreed.

The first sign that the alcohol lobby was losing ground came this week when President José Sarney issued a decree phasing out over the coming four years the subsidies paid to alcohol users in the chemical industry.

● Public sector workers in Brazil must accept a two-month pay freeze until the Supreme Court rules on its legality, the national appeals court has ordered.

The decision represents an important victory for the government in its efforts to impose tough austerity measures to rein in the federal deficit. Last week, unions representing the Lloyd Brasileiro shipping line and employees of the national savings bank humiliated the authorities by winning labour tribunal backing to ignore the pay freeze decree. This is now reversed.

However, efforts to hold down private sector pay rises foundered yesterday when Sao Paulo engineering industry employers' returned to talks on a 15 per cent pay claim after stoppages by more than 13,500 workers.

Guyana seeks $1.7bn aid

GUYANA is seeking a three-year $1.7bn financial package on the back of an expected agreement with the International Monetary Fund, Robert Graham reports.

Outlines of the package were revealed yesterday by Mr Hugh Desmond Hoyte, the Guyanese President, who is in London to stimulate investment interest in this former British colony on the South American shore of the Caribbean.

Negotiations with the IMF mark a return to financial orthodoxy after Guyana's isolation during two decades of the leftist Forbes Burnham administration.

Agreement with the IMF has been made a pre-condition by the majority of investors who have begun to renew interest in exploiting Guyana's vast resource potential of oil, minerals and timber.

Mr Hoyte indicated to journalists that the financial package would include $1.2bn in bilateral aid, and $150m needed to cover arrears to the IMF, World Bank and Caribbean Development Bank.

Akzo, Du Pont reach accord in fibre battle

BY LAURA RAUN IN AMSTERDAM

AKZO, the Dutch chemicals and fibres group, and Du Pont, the biggest chemicals company in the US, have reached a significant agreement ending their long and costly patents battle over super-strong fibres.

The two said yesterday they had granted each other patent licences for their respective aramid fibres and that all litigation would be halted. Akzo and Du Pont had accused each other of infringing their respective patents for spinning processes and chemical solvents involved in producing aramid fibres.

The financial compensation and other details were not disclosed.

The agreement ends a decade of legal battles over each other's manufacturing patents – 12 law suits in seven countries. The accord probably will stop an international trade war between the European Community and the US over a US import ban on Akzo's Twaron aramid fibre that runs until 1990.

Aramid fibres are used in bullet-proof vests as well as in telecommunications and aerospace. Applications in rapidly growing high-technology industries mean the worldwide market is expected eventually to climb to $1bn a year.

A major impetus for the settlement was a London court ruling 10 days ago that Du Pont could no longer make or import into the UK its Kevlar aramid fibre or polymers used in production. The ban threatened to strike a serious blow to Du Pont's new Kevlar factory in Maydown, Northern Ireland, scheduled to begin production in July.

Akzo is currently making too little of its Twaron fibre to satisfy aramid clients in the UK and elsewhere where import bans on Kevlar were pending. Thus Akzo has not given the go-ahead necessary for enacting the import bans.

Kevlar is the biggest single investment Du Pont has ever made on a product, with estimates ranging up to nearly $1bn over more than two decades.

Twaron is still losing money for Akzo, but the company hopes to earn a profit soon with the fibre, which is viewed as one of its most promising products.

Racal wins West German data network contract

RACAL-MILGO, a unit of Racal Electronics of the UK, has been selected by Deutsche Bundespost, the West German telecommunications and postal authority, as contractor for its Temex data network, Reuter reports from London.

Following the initial contract worth £10m, Racal said it expected total business worth of about £40m. Racal-Milgo, based near Frankfurt, will begin deliveries in December.

The data transmission equipment for Temex will be manufactured by Racal-Milgo at its UK plant in Warrington.

The Temex system superimposes computer data signals onto standard telephone lines without interfering with normal calls, a technique known as data-over-voice.

Uses include the remote reading of gas, electricity and water meters, safety checks and controls for buildings, elevators, street lights and alarm systems.

Temex will be the first system of its type to be introduced and will eventually be available to most of West Germany's 30m telephone subscribers.

Racal said Racal-Milgo has made substantial investment in the development of Temex. Systems using Racal-Milgo technology are operating in six West German cities as part of the Bundespost's pilot trials.

Within the first 18 months of the project, 60 towns in the Federal Republic are expected to be connected by the system.

It is anticipated that a total of 6,000 town telephone exchanges will be linked to the Temex service. Some 450 central units will be delivered over a five-year period.

Gatt enters row over pre-shipment inspections

By William Dullforce in Geneva

PRE-SHIPMENT inspection, the contentious use by developing countries of specialised companies to check on the price and quality of goods before they are despatched by exporters, has been put on the agenda of Gatt's Uruguay Round.

US, British and other European exporters complain that the inspection agencies cause delays, increase costs, interfere in price negotiations and endanger business secrets.

On a US initiative, backed by the European Community, the issue was raised on Monday in the group negotiating on non-tariff barriers in Gatt's trade-liberalising round.

Developing countries voiced concern that a practice which saves them significant amounts of foreign exchange should be the subject of negotiation.

But at least one major employer of inspection companies, Indonesia, agreed that the problems connected with pre-shipment inspection call for a "multilateral response", and Gatt's non-tariff negotiating group was the competent body to handle it.

The US and EC acknowledged that developing countries needed protection against false invoicing, and some activities of the inspection companies were warranted.

However, their exporters had raised three problems:

- the time-consuming delays of the inspection process;
- inspection companies' practice of abrogating contracts between exporters and importers because they considered the prices involved were not "reasonable";
- the possibility of confidential business information submitted to inspection companies being misused.

Tanzania asked the US to table specific instances of delays and information leakages. Hong Kong said it would be sensible to establish a code of practice for agencies.

The issue is an untidy one internationally. The US International Trade Commission has ruled that inspection activities do not constitute a tariff barrier and the matter has been dropped from the US trade bill recently adopted by Congress.

Jordan has sold more to Iraq than the government will guarantee, writes Andrew Gowers

Debts mount after Jordanian export boom

JORDANIAN EXPORTERS and banks may face losses totalling well over $100m, after an uncontrolled boom in sales to Iraq for which they have little immediate prospect of being paid in full.

At stake are exports contracted for in the first three months of this year and worth almost $300m more than the amount covered in a bilateral trade agreement between Jordan and Iraq.

With the central bank of Jordan refusing to fund the excess, many industrialists and traders have been stuck with unpaid debts or with goods such as chemicals and paint ingredients which they cannot sell at a profit.

The problem has led to severe recriminations between the Jordanian private sector and the Government over who should pick up the tab, as well as intensive consultations between Jordan and Iraq. The two countries are close allies over the Gulf war, with Jordan providing Iraq's most important overland trade route from its port of Aqaba.

The excess has also added to nervousness about Jordan's general financial situation at a time when foreign exchange reserves are looking perilously low. It was one factor behind a sudden flight last week from the Jordanian dinar into the dollar.

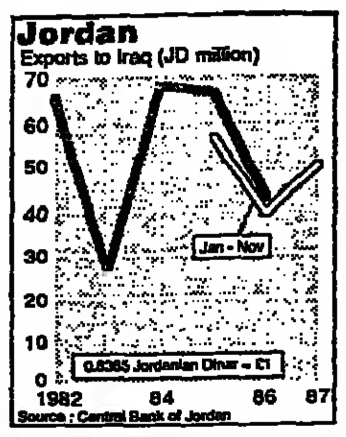
The trouble arises from Jordan's annual trade protocol with Iraq, which officially guarantees trade in goods worth $185m each way. Under this agreement, Iraqi importers open letters of credit up to that value, reimbursable to the bearer by the Central Bank of Jordan.

In normal times, despite problems which have caused Iraq to reschedule payments on its debt of over JD200m (£127m) to Jordan, the trade arrangement appears to have worked reasonably well, with imports strictly controlled by the Iraqi Government.

Recently, however, Baghdad has loosened the state monopoly on foreign trade as part of its effort to deregulate the economy, resulting in a rush by the private sector to open letters of credit in the first three months of this year.

Sales to the value of about $500m are said to have been contracted for in that period, well over double the sanctioned amount for the entire year. Industrialists have been becoming increasingly worried in recent weeks about how the excess is to be funded. Iraq is strapped for cash as a result of its war with Iran, while the Jordanian Government's own finances are scarcely in the best of health.

The problem came to a head on Monday of last week, when nearly 100 industrialists held a stormy meeting with Government representatives to press for official assistance.



The response from Mr Hamdi Taba'a, Minister of Industry and Trade, was blunt: the Government, he said "will not exceed the limits of the protocol." After the central bank had paid out the full $185m, "everyone will have to pay for his mistakes."

According to independent economists, about $135m worth of goods have already been shipped and paid for, which leaves only $50m to be shared among exporters clamouring for something like $350m.

"Industry is in trouble," said one informed observer. "They ordered raw materials from abroad to the value of around 40 per cent of the selling price. Now they have to store them, and God knows if they can sell them."

In reality, the problem may not be quite as bad as it sounds, since the Government suspects that a sizeable proportion of the exports involved were actually re-exports of non-Jordanian products, labelled as if they were of Jordanian origin. Given that the mark-up on such transactions will have been up to 40 per cent, some bankers estimate that the total losses may not be much more than JD40m.

Nevertheless, in a small economy like Jordan's that is a not insignificant amount. The result has been a mini-crisis of confidence in the private sector, which was compounded last week by what many observers see as signs of official nervousness about the level of the central bank's foreign exchange reserves.

These are now said to be only sufficient to cover two weeks' imports, as a result of a delayed aid payment from Saudi Arabia, Jordan's main benefactor, and of a late debt repayment from Iraq.

Last week – on a day which is already being dubbed "Jordan's Black Monday" – tha central bank temporarily refused to sell dollars, apparently in order to pre-empt a threatened flight from the dinar. The value of the dollar shot up by about 20 per cent in two hours, though the subsequent easing showed this was a huge over-reaction.

As to the trade problem, the Government's first response in deciding whom to pay has been to give priority to those goods certified as having 40 per cent Jordanian content or more, and exclude from the trade protocol non-Jordanian goods that had been passed as goods of Jordanian origin.

But that still leaves a significant quantity of goods not paid for. Bankers claim the Iraqis have indicated they will foot the remaining bill under trade protocols in the next couple of years, but that will not be enough to prevent some Jordanian exporters and perhaps some banks from suffering serious liquidity problems in the meantime.

Another possibility is that Jordan and Iraq might agree to increase the trade covered by the current protocol, but it is difficult to see how Jordan could much expand its imports from Iraq, given that it already buys more than three quarters of its oil from that quarter.

At regular ministerial trade talks with Iraq next month, Amman will no doubt be seeking clear assurances from Baghdad about a problem which underlines how closely Jordan's economic and industrial fortunes have become tied to those of Iraq.

Three left in Bangkok rail race

BY ROGER MATTHEWS IN BANGKOK

THE COMPETITION to win the $1.2bn (£666m) contract to build, finance, operate and maintain a mass rapid transit system for Bangkok has entered its last stages, with three international consortia left in the running.

The scheme, first discussed in 1972, has finally become a priority for the Thai government because of the rapidly worsening traffic situation in the capital.

Of the three the narrow front-runner is believed to be the Asia-Euro group comprising Leighton, Australia's biggest construction company, together with the West German and Belgian companies, AEG, Siemens, ACEC, MAN and Tractebel. The consortium's financial adviser is Wardley's.

The other consortia are Lavalin of Canada with the UTDC transit company which has strong support from the Canadian government and is advised by Morgan Grenfell and the Franco-Japanese grouping which includes tha local company Ital-Thai, Matra and HMT, Hitachi, Toshiba and Mitsubishi, with Schroeders as financial adviser.

Part one of the scheme for which the consortia are now bidding will cover 36km of mainly elevated track together with rolling stock, 35 stations, and all associated works. The second stage is for 24km of track. The project's value is put at $2bn.

The successful consortium will form 75 per cent of a company set up to build and operate the mass transit system, with the Thai authorities, which are providing the land and some infrastructural work, taking the other 25 per cent.

The company will operate the system for 30 years after which it will revert to the Thai government. The company will have the right to set fares.

It will also have to become involved in property development as the land designated for the network includes about 100 acres for the main rolling stock depot, of which not more than 10 per cent will actually be required. The other 90 or so acres can be developed by the newly-formed joint venture company.

Overall capacity of the first stage is put at 600m journeys a year, more than double the present levels on Hong Kong's mass rapid transport system.

One of the attractions to the Thais of the Asia-Euro Consortium is that it may be willing to transfer some of the final assembly work on the rolling stock to Thailand.

The Thai authorities hope the selection of the winning consortium can be completed within a few months, allowing work to begin early next year and the first trains to be running by mid-1993.

'Sharp dealing' by Chinese angers UK metal traders

BY KENNETH GOODING IN NICE

THE reintroduction of the profit motive in China has had unfortunate repercussions for several UK metal traders.

Some Chinese have been taking advantage of rocketing metal prices to sell the same material twice – the second time at a higher price.

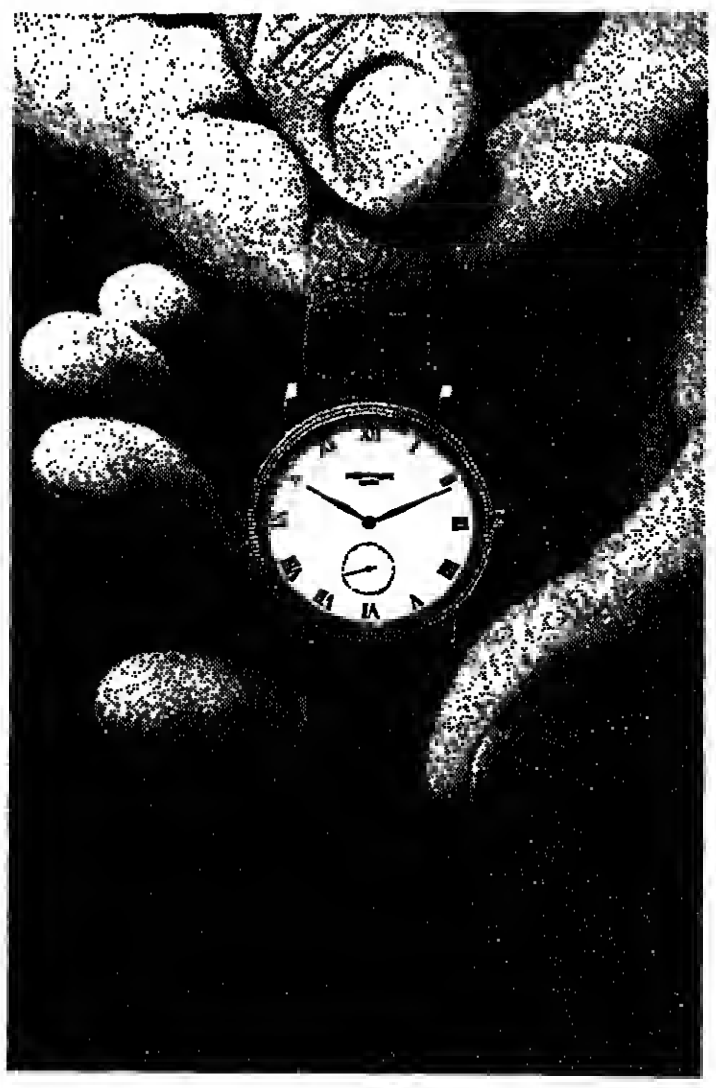
The frequent failure of Chinese to honour contracts by selling the same metal several times or not delivering at all was on the agenda at the biannual meeting of the UK Minor Metals Traders Association in Nice. It was clear several UK companies were considering legal action.

The association has the support of the UK Department of Trade and Industry which in an unusually outspoken letter distributed to members said it was aware of "the very worrying decline in Chinese trading standards".

The matter has been drawn to the attention of the Chinese Ministry of Foreign Economic Relations and Trade, and Lord Young, UK Industry Secretary, raised the subject during his recent meetings with Chinese leaders.

"The Department has been considering how to pursue this further. While the government cannot intervene directly in commercial relations between individual companies, we have in the past brought individual cases to the attention of the Chinese authorities to demonstrate both the scale and nature of this problem", the department's letter stated.

"It has been agreed between the department and our embassy in China that we should continue to bring these cases to the attention of the Chinese whenever we have the agreement of the complainant."



RETURN TO DEMOCRATIC ACTION PLEDGED

Ban lifted from Sri Lankan extremist party

BY MERVYN DE SILVA IN COLOMBO

PRESIDENT Junius Jayawardene yesterday lifted the ban on the JVP (People'a Liberation front), an extremist Sinhalese nationalist party, which has been conducting a spectacular programme of terror in Sri Lanka's predominantly Sinhalese south.

The campaign was particularly violent after Mr Jayawardene signed a "peace accord" last July with Mr Rajiv Gandhi, the Indian Prime Minister, to end the Tamil separatist revolt in the island's north. The JVP will cease all acts of violence while the security forces will call a halt to all "cordon and search" operations.

Mr Rohana Wijeweera, the JVP leader, said the party intended to return to "mainstream democratic politics" Mr Lalith Athulathmudali, the National Security Minister, told a press conference.

Under the agreement a surrender of arms will begin on May 29, the start of the Vesak, the Buddist festival, the state radio announced. Arms will be handed over by JVP combatants to the chief monks of Buddhist temples designated by the Government.

Gen Sepala Attygalle, the Defence Ministry Secretary, said that the JVP's arsenal included 96 automatic rifles stolen in raids on army camps and over 800 hundred shotguns. When the arms surrender is over JVP activists in jail for minor offences will be released. Four hundred others facing trial for murder, attempted murder or armed robbery will not be released.

Tha announcement by Mr Athulathmudali took political and diplomatic circles by complete surprise. The JVP, which killed 28 ruling UNP and opposition left wing candidates before the provincial council elections last month, assassinated four more candidates on Monday.

Among its victims were the UNP chairman, the police superintendent in charge of counter-subversion and the filmstar son-in-law of former prima minister Mrs Bandaranaike. In a daring grenade attack in parliament the JVP failed to kill the president, and the prime minister.

President Jayewardene told a May Day rally that he would never remove the ban on the JVP until the gronp pnblicly renounced violence first, and the Government's volte face remains a riddle. A few hours after the agreement was announced, a newspaper office received a telephone call saying the JVP had not signed anything.

IMF chief challenges banks

By Simon Holberton in London

EFFORTS by debtor countries to follow sound economic policies were being imperilled by the failure of commercial banks to lend them more money, Mr Michel Camdessus, managing director of the International Monetary Fund (IMF), said in London last night.

Mr Camdessus, speaking at City University's business school, said the banks had a crucial role to play in the resolution of the debt crisis. But their slow response to the challenge not only caused concern in itself but also called into qnestion the notion that the IMF's strategy for indebted countries' economic recovery was a co-operative one orientated to growth.

Mr Camdessus said the speed with which indebted countries were adjusting their economies was not as fast as many would like but it was faster than the international community was prepared to acknowledge.

"One can only be concerned that this shift risks being interrupted, and even reversed, because of doubts concerning the availability of financial support," he said.

Net lending by banks to countries with debt-servicing problems was negative in 1985 ($9bn) and 1986 ($3bn). The latest estimates for 1987 put net lending at a positive $2bn to $5bn, a level which Mr Camdessus described as "negligible."

The debt strategy was at risk when financing fell short and when the financing packages were delayed because of the time taken "to bring a few reluctant entities into the collective effort."

Stefan Wagstyl in Osaka reports on overt and covert prejudice against the Buraku

Japan's lower caste faces prejudice

THE JAPANESE like to tell the world they are a homogeneous people – one race, one class and one culture. Japan's 600,000 Koreans show this to be a myth. So do the Ainu, the original settlers, who survive in the far north.

However, even the Japanese do not make up a uniform mass.

Some of the worst prejudice in Japan is reserved for a minority group which is wholly Japanese – the Burakumin. They are indistinguishable by race or religion from other Japanese. Burakumin are defined by birth, by poverty and the kind of work they do. The official census reckons them at 1.2m, but their own count says 3m.

They are associated in the minds of most Japanese with slaughterhouses, leather factories and crematoriums. The closest parallel is with the lower castes of India. The treatment of Burakumin is one of the most unpleasant skeletons in Japan's cupboard. Many Japanese do not want to talk about it. Foreign reporters are warned by Government officials to take care.

The Japanese Government has done much in the past 20 years to outlaw overt prejudice and turned many Buraku slums into modern housing districts. Even so, like minorities in other countries, Burakumin have found that better living conditions have not guaranteed social acceptance. They are integrating into Japanese society as a whole but at a painfully slow rate.

In marriage, above all, Burakumin encounter immense prejudice if they want to marry non-Burakumin. "This is the most important issue," says Mr Shigeki Shimboku, director of the Institute of National Integration, a Government-sponsored body. Young people often break off relationships when they learn their partners are Burakumin, or even live in a Buraku area. Sometimes the parents force the issue. Suicides are not unknown.

Ten years ago, a woman Mr Shimboku knew killed herself when her non-Burakumin fiancé investigated her background and learnt she came from a Buraku area. "She had never even heard the word Buraku before. Her parents had never mentioned it," says Mr Shimboku.

The origin of discrimination against Burakumin lies in Japan's rapid industrialisation, during which many traditional values and prejudices survived. Burakumin are the direct descendants of Eta people, the outcast class of pre-industrial Japan, who often worked as butchers, tanners and executioners.

When the feudal order was abolished after the Meiji Restoration of 1868, the Eta were supposed to be integrated to the rest of Japanese society as were other groups of poor people.

However, Burakomin found themselves sliding to the bottom of the social order because their traditional skills, especially in leatherworking, were being rapidly superseded by industrialisation. So the burakumins' relative poverty increased.

At the same time, the Emperor Meiji's Government began Japan's foreign expansion with the invasion of Korea. To win popular support for the attack, the Government deliberately fostered the belief that Burakumin were descendants of Korean slaves. This idea persists in the minds of many Japanese today. Some people simply say Burakumin and the Japanese Koreans are the same.

Mr Shimboku says that, in many countries, industrialisation caused upheavals which people frequently blamed on minorities, notably Jews in Europe. Cut off from the outside world for hundreds of years, the Japanese had little knowledge of foreigners but they felt the same psychological need to blame their problems on a minority.

"People wanted to believe Burakumin were different," says Mr Shimboku. Also, association of the Burakumin with the slaughterhouse played on Japanese minds. Burakumin argue that revulsion against slaughterhouses was extended to revulsion against those who worked there. This attitude is common, though most Japanese now eat meat.

After the second world war, the rise of political awareness among Burakumin, fostered by the Buraku Liberation League (linked to the opposition Japan Socialist Party), eventually pushed the Government into action.

Since the early 1970s, schools and universities have had to admit students regardless of social origin; employers recruiting staff have been banned from using notorious black books – lists of Japan's Buraku districts compiled by private detectives.

Buraku slums have been modernised. Naniwa, a district of Osaka, is a showcase Buraku area, with a sports centre, old people's centre and school, none of which would look out of place in a smart part of Tokyo or London. Elsewhere, there are still districts where people live in dilapidated wooden shacks with open sewers and no electricity, though Buraku leaders concede these are a tiny minority.

As a result Burakumin standards of living, health and education have risen greatly. For example, in the 1960s, 33 per cent of Burakumin stayed at school after the age of 16, against a national average of 70 per cent. Now the Burakumin figures are 89 per cent and 95 per cent.

For all that, most Burakumin remain in the poorest section of society. They are twice as likely as most Japanese to be receiving social security payments.

Overt job discrimination has been largely stamped out but covert prejudice still exists. In 1985, a teacher blew the whistle on a Osaka sweets wholesaler who had told him not to bother sending to job interviews any Burakumin or Koreans.

Inter-marriege is slowly increasing. The proportion of Burakumin who marry non-Burakumin has risen from 31 per cent in the early 1960s to 55 per cent in 1984, according to a national survey. However, these marriages still often involve much heartache.

Mr Akinobu Tanimoto, an official of the Buraku Liberation League, is a Buraku married to a non-Buraku. He says he spent a year trying to win over his wife's parents before they would allow the marriage. Five years later his wife's other relatives still refuse to see him.

Burakumin people in Naniwa say prejudice is receding. But they believe that the process may take 30 years when the children of the present generation of newly-weds themselves get married.

Israelis seize Gazan identity cards

By Andrew Whitley in Jerusalem

HUNDREDS of Gazans were compelled by the Israeli army yesterday to hand in their old identity cards, which will be replaced with new documents only after their bearers have been cleared by the Israeli security and taxation authorities.

The operation in the centre of Gaza City marked the start of a months-long drive to renew all 350,000 identity cards in the occupied Gaza Strip. If successful, the action is to be extended to the larger and more populous West Bank region.

In a statement to parliament, Lt Gen Dan Shomron, the army Chief of Staff, confirmed that the goal was to increase the Palestinian population's dependence on Israel. "If the aim of the uprising was to shake off this dependence, our aim is to increase it," he told the Knesset Foreign Affairs and Defence Committee.

Starting early in the morning, soldiers surrounded the affluent Rimal district of Gaza City and went from door to door, entering houses and confiscating householders' identity cards, according to eyewitnesses. Some houses were broken into, causing damage to belongings, while passers-by were forced to hand over their documents.

Those without their precious cards – without which even internal movement within the crowded coastal enclave is virtually impossible – were required to queue up for hours at two converted schools to receive new application forms.

US bank in Delhi bombed

BY JOHN ELLIOTT IN NEW DELHI

A BOMB blast in an office of Citibank in New Delhi yesterday killed one man and injured 13 others. Tha Indian capital has been under a red security alert since Sunday becanse of increasing violence by Sikh extremists.

Police were last night investigating whether the explosion was part of the Sikh violence, or was directed against the US by some other group.

The Citibank office is on the podium of a modern 13-storey tower block on Connaught Circus, Delhi's fashionable shopping area.

The bomb went off at midday in the reception area. Desks and office equipment were smashed and burned and the glass curtain wall was blown out on two floors.

Mr H L Kapur, the city's Lieutenant Governor, said after visiting the scene it was virtually impossible to guarantee security, despite the red alert.

● Shooting continued intermittently for nearly 24 hours until yesterday morning at the Golden Temple in Amritsar, north India, following the gun battle between Sikh extremists and security forces on Monday. More than 1,000 people trapped in the temple complex, a no-go area for police, were evacuated yesterday. Amritsar remains under curfew.

S Africans see anti-apartheid victory in Zola's return

BY ANTHONY ROBINSON IN JOHANNESBURG

ZOLA BUDD, the South African runner whose controversial acquisition of British nationality embroiled her in the whirlpool of sporting politics, yesterday arrived home almost unnoticed after issuing a statement in London on Monday night saying that she had decided to withdraw from international athletics, on medical advice.

Doctors warned her that she was suffering from nervous exhaustion, after months of controversy surrounding her possible inclusion in the British team at the Seoul Olympics.

The statement, issued through Mr John Bryant, her coach, said: "Pressure of recent events has told on my health to such an extent that at the moment I no longer feel well enough to continue in competitive athletics."

Miss Budd's decision return to South Africa is confirmation to those who for years have argued that her heart belongs to the South Africa where she was born and bred rather than the Britain whose passport she aquired in record-breaking time in 1984. Such fears were expressed yesterday by Springbok athlete Sonja Laxton who warned "by coming back she's playing right into the hands of her detractors."

Mr Jannie Momberg, her former coach and mentor and chairman of the Western Province Athletics Association, said: "I know she must be feeling blue but if I could give her advice I would have told her stick it out. . You can pick any other place to go to recuperate, but not South Africa," he warned.

For sports-obsessed South Africans Zola Budd is a home-grown heroine. For years they have followed every twist and turn in the saga which has turned her into a target for anti-apartheid lobbyists around the world.

She is also a household name to millions of black South Africans who drive home to the townships in Nissan taxis nicknamed "Zola Budds" in contrast to the allegedly slower Toyota "Mary Deckers". The names carry the memory of the tranmatic collision between the two runners at the Los Angeles Olympics which left Mary Decker on the ground, the crowd on its feet and booing and Zola Budd in tears.

Although video re-plays later vindicated Miss Budd the American crowd's reaction was, to South African eyes, somehow characteristic of the kind of prejudice and emotion which has dogged her attempt to establish herself as a world class international athlete.

Now with Miss Budd close to breaking point according to her doctors, the general South African view is that the British selectors have been let off the hook and the anti-apartheid lobby has chalked up another success.

Guns fall quiet in south Beirut

AN uneasy calm prevailed in south Beirut yesterday as Syrian and Iranian security teams enforced a truce between feuding Shia Moslem militias, Reuter reports from Beirut.

At least 125 people have been killed in four days as militiamen of the Iranian-backed Hizbollah (Party of God) and pro-Syrian Amal fought over territory in the Lebanese capital's teeming Shia southern suburbs. A ceasefire took effect late on Monday and appeared generally to be holding, despite several incidents.

FT LAW REPORTS

Lego loses Hong Kong copyright

INTERLEGO AG v TYCO INDUSTRIES INC AND OTHERS
Privy Council (Lord Keith of Kinkel, Lord Templeman, Lord Ackner, Lord Oliver of Aylmerton and Lord Jauncey of Tullichettle):
May 5 1988

HONG KONG copyright protection does not extend to pre-1973 artistic works which were registrable as designs in that, looked at as a whole, their features appealed to the eye though serving a functional purpose. And post-1972 drawings reproducing the previous drawings with no substantial alteration other than to dimension and tolerance figures, are also not protected in that visual alteration is required before the reproduction can constitute an original artistic work.

The Privy Council so held when dismissing an appeal by Interlego AG ("Lego") from a decision of the Hong Kong Court of Appeal that its pre-1973 Lego designs were not protected by copyright. A cross-appeal by Tyco Industries Inc from a decision that post-1972 designs were protected, was allowed.

LORD OLIVER giving the judgment of the Judicial Committee, said that Lego was a system of model-building consisting of brick-shaped blocks capable of being joined together to form a stable structure.

The system was originally designed by a Mr Hilary Page who marketed it under the name Kiddicraft. Lego, a Swiss company holding the intellectual property rights of a group with Danish headquarters, purchased any subsisting copyright from Mr Page's executors. In 1958 it devised an improved design inserting within the brick three hollow tubes to bear on the studs of the brick below and thus to *improve clutch-power.*

Lego protected the design by patent and by registering a design under the Registered Designs Act 1949. The patent and the design registration both expired in 1975.

Tyco were US toy manufacturers with factories in the US and Hong Kong. In 1983 they informed Lego they proposed to manufacture and sell a model-making system looking like Lego, working like Lego and capable of combination with Lego, but selling at a competitive price.

Lego instituted proceedings in Hong Kong for infringement of copyright in Lego design drawings, by reverse engineering. It was not suggested that Tyco ever saw the design drawings. Their elements were made simply by measuring and reproducing the configuration of the three-dimensional Lego elements.

Lego was successful before Mr Justice Jones in the High Court of Hong. The Hong Kong Court of Appeal reversed the decision so far as it related to Lego's pre-1973 drawings, but affirmed it as to the remainder. Leave was given to Lego and Tyco to appeal.

The significance of January 1 1973 was that on that date the United Kingdom Copyright Act 1956 was extended to Hong Kong by the Copyright (Hong Kong) Order 1972.

Section 10 of the 1956 Act contained a code for regulating the extent and subsistance of copyright in relation to an artistic work where a design corresponding to such work was applied industrially.

Paragraph 8(1) of the Seventh Schedule to the Act provided that the section was not to apply to artistic works made before January 1 1973. Sub-paragraph (2) of paragraph 8 provided: "Copyright shall not subsist . . . in any artistic work made before the commencement of section 10 which, at the time when the work was made, constituted a design capable of registration under the Registered Designs Act 1949 . . ."

The questions raised on Lego's appeal were first, whether the pre-1973 drawings were "designs" as defined by the 1949 Act and thus excluded from the ambit of copyright by paragraph 8(2); and secondly, assuming they were designs, whether they were "capable of registration".

Section 1(2) of the 1949 Act provided that "a design shall not be registered . . . unless its is new or original." Subsection (3) provided "design" means features of shape, configuration . . . applied to an article by any industrial process . . . being features which . . . appeal to and are judged solely by the eye, but does not include . . . features . . . dictated solely by the function . . ."

Lego argued that the Registrar should never have permitted registration of the 1958 designs, because they were never "designs" as defined in section 1(3), since they were wholly dictated by functional requirements. Secondly, it argued, they lacked novelty having already been anticipated by the Page pattern, and were thus not "designs capable of registration".

The definition of "design" in section 1(3) of the 1949 Act was hardly a model of Parliamentary draughtsmanship. The construction which made better sense, and which was supported by the authorities, was that the whole shape or configuration must be treated as registrable, unless the whole of it was dictated solely by functional considerations.

Thus the shape or configuration as a whole was being "applied to" the article as a whole. The primary essential before a shape could be registered as a design was that it should have eye-appeal. The design had to be looked at as a whole and the question asked "do *these* features of shape or configuration, taken as a whole and in combination appeal to the eye."

A child's toy designed as or to be incorporated into a model had of its very nature to appeal to the eye. Furthermore, there was evidence that in arriving at their design, Lego's draughtsmen had in mind not simply the functional efficiency, but visual appearance. In the light of that, and having regard to the very nature of the finished article, the first and positive part of the definition was satisfied.

The question raised by the second and negative part of the definition was whether there were any features of the overall design which were not solely dictated by function.

The knobs and tubes were not embellishments added for the primary purpose of ornamentation. They served a functional purpose. But the relevant question was whether the whole shape or configuration was dictated solely by the function of interlocking. One only had to look at the overall design to see that there were features which had no necessary relation to function. The evidence was that changes were made to make the end result look more like a Danish brick, and because the new version looked nicer.

That evidence negatived any conclusion that the shape or configuration was dictated solely by *function. It* was a shape which not only had eye-appeal, but also had significant features of outline and proportion not dictated by function.

Lego submitted, however, that even on that hypothesis, the pre-1973 drawings were not excluded from copyright by paragraph 8(2), because they were not "designs capable of registration under the Act of 1949". The drawings reproduced, with modifications, the Page designs and so, it was argued, they ought not to have been registered.

The purpose of paragraph 8(2) was to ensure that the Act did not confer a new copyright upon existing works previously excluded from copyright.

It could hardly have been contemplated, when paragraph 8 was enacted, that a design properly registered under the 1949 Act and entitled to the privileges conferred by registration, should simultaneously enjoy copyright under the 1956 Act.

The Court of Appeal correctly concluded that the only sensible construction of "constituted a design capable of being registered", having regard to the purpose of the statute, was that it referred to designs possessing, when they were made, characteristics which qualified them as "designs". If such designs were, at that time, used or intended to be used for the purpose of industrial reproduction, they were not *to qualify for copyright under the* 1956 Act.

It followed that no copyright now subsisted in Lego's pre-1973 drawings.

On Tyco's cross-appeal, the question was whether the post-1972 drawings, which substantially reproduced the salient features of the pre-1973 drawings, were entitled to copyright as original artistic works.

The post-1972 drawings, with one or two exceptions, were all modifications of and very largely copied from pre-1973 drawings, incorporating only small modifications. They involved no substantial alteration to the drawing as such.

The significant changes were the substitution of new dimension and tolerance figures. The re-drawing of an existing drawing with a few minimal visual alterations did not make it an original *artistic* work, however much labour and skill might have gone into it.

Infringement of copyright by three-dimensional copying was restricted to artistic copyright. The essence of an artistic work was that it was visually significant. There was no alteration of any visual significance such as to entitle the drawing to be described as original.

Lego's claim for infringement of copyright failed with regard to those drawings copied from drawings made before 1973 or from other drawings in respect of which no infringement had been claimed.

Lego's appeal was dismissed. Tyco's cross appeal was allowed in respect of all but two relatively trifling items.

For Lego: William Aldous QC, Anthony Rogers QC and Andrew Liao (Clifford Chance)

For Tyco: Robin Jacob QC and Peter Clayton (Denton Hall Burgin & Warrens)

Rachel Davies
Barrister

International Appointments

Company Notices

ACCOR
Corporation organized under French law (Société Anonyme)
Capital: French francs 1,384,336,200
Head Office: 2, rue de la Mare Neuve - 91021 EVRY (France)
Registered Head Office: Corbeil Essonnes B 602 036 444
SECOND NOTICE TO HOLDERS OF 7½% 1984-1989 BONDS OF U.S. $1,000 EACH CONVERTIBLE INTO ORDINARY SHARES OF ACCOR

The holders of 7½% 1984-1989 bonds issued by ACCOR and convertible into ordinary shares who were called for May 10, 1988 being unable to meet validly for lack of quorum, are again called to a General Meeting at 3, rue La Fayette - 75009 PARIS, on May 18, 1988 at 2 p.m., in order to consider the same agenda as the one for the first meeting, that is:
- Approval of the shareholders' waiver of their preferential rights to subscribe securities that the Extraordinary General Meeting of shareholders on May 18, 1988 will authorise the Board to issue.
- Approval of the alteration in the Articles of Association which will be submitted to the Extraordinary General Meeting of shareholders on May 18, 1988, to convert the bearer securities into "Identifiables" securities according to the French Law No 87 416 of June 17, 1987.

To permit the bondholders to attend of to be represented at this meeting, the bonds or their deposit receipts must be deposited at least five days before the date fixed for the meeting, at the offices of the banks having participated in the placing of these bonds and from whom proxies or admission cards can be requested.

The Board of Directors

BAYER AKTIENGESELLSCHAFT

The Annual General Meeting of Bayer Aktiengesellschaft will be held on 22nd June, 1988 in Cologne. Payment of a Dividend of 20% and an *additional anniversary bonus of 2%* for the year 1987 will be proposed.

Copies of the Company's Annual Report for 1987 in German will be available from:–
Hambros Bank Limited,
Hill Samuel & Co. Limited,
Kleinwort, Benson Limited,
S.G. Warburg & Co. Ltd.

United Kingdom Shareholders who wish to attend and vote at the *Annual General Meeting* should by 14th June, 1988, inform S.G. Warburg & Co. Ltd., Paying Agency, 6th Floor, 1 Finsbury Avenue, London EC2M 2PA, who will make the necessary arrangements on their behalf.

Under Section 125 of the German Companies Act, the Board of Management is only obliged to provide information on proposals and nominations that may be made by shareholders if the parties concerned prove their standing as shareholders in good time.

BAYER AKTIENGESELLSCHAFT
11th May, 1988

Holidays & Travel

Motor Cars

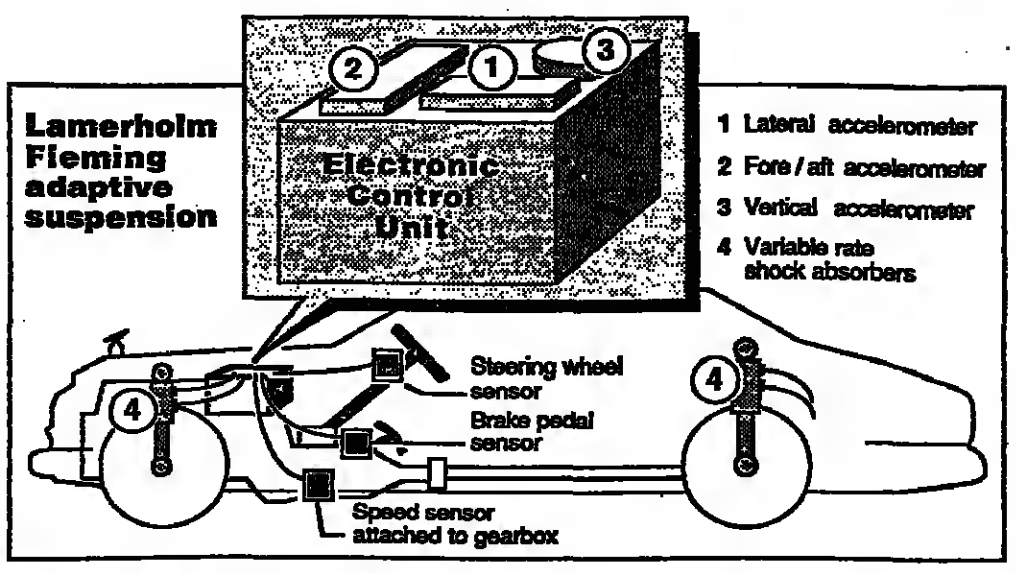
International Property

Personal

TECHNOLOGY

Alan Wraight reports on a development in car electronics which clears the way for 'intelligent' suspension

Reducing the shock to the system



FOR Peter Kellett it was a straight choice.

"Our main competitors are big companies with plenty of marketing muscle," says the 60-year-old managing director of Lamerholm Fleming, a privately owned electronics company of Stevenage in the UK. "They make products that perform many different tasks in various types of machinery and cost up to £1,500. There was no point in competing head on. It was better to simplify designs, make one unit to do just one job and sell it for under £5."

The products in question are transducers, a generic term for devices which sense movement and convert it into electrical signals.

Kellett has not regretted his keep-it-simple, keep-it-cheap decision, for the fruits of this policy have met with strong demand from car manufacturers Rolls Royce, Ford, Rover Group and Saab.

These use Lamerholm transducers in computer-controlled engine management systems. Now Rolls Royce, Jaguar and two other UK car producers are working with the Stevenage company on one of the main areas for developing car electronics, "intelligent" suspension systems, a field in which every major car company is involved.

As the leading manufacturers push to increase the electronic content of their vehicles, the car of the future is expected to have such functions as steering, engine management, braking, collision avoidance and suspension under the control of just one computer.

The ultimate goal in the area of suspension is for production vehicles to have fully "active" systems of the type already seen on Lotus and Williams grand prix racing cars. These systems use a multitude of transducers and replace the conventional springs and shock absorbers with ultra fast-working hydraulic rams.

Chrysler, Volvo and at least six other car producers are involved with General Motors-owned Lotus Engineering of the UK in the development of such designs. But system costs have so far proved prohibitive, even for adoption on top-of-the-range models.

Indeed, Tony Rudd, managing director of Lotus, believes it will be more than 10 years before active suspension technology sees its way into production cars.

Meanwhile, the car companies are looking to the development of "adaptive" suspension, a way of getting some of the advantages of active technology without the heavy cost. Still very much in its infancy, this technology represents the first steps in an evolution towards a fully active solution.

Adaptive systems use transducers to anticipate what the car is about to do – tilt into a corner for example. They then put conventional hydraulic shock absorbers into one of three settings: soft, normal or hard. The result is better handling and improved driver comfort.

"Until about 12 months ago, car company marketing men were sceptical whether customers would appreciate the advantages enough to pay the extra cost of adaptive suspension. However, there has been a marked change in attitude. They now see it as offering a real sales benefit," says Geoffrey Lawrence, former chairman of Solex UK, the carburettor manufacturer, and now an automotive products consultant.

BMW, Lancia, Ford in the US and a number of Japanese car manufacturers already offer models featuring adaptive suspension. Indeed, several of the Japanese companies have gone so far as to label their systems "active", bringing to their vehicles at least a nomenclature connection with the leading-edge technology of grand prix racing cars.

But their suspension systems, like those of European and US counterparts, incorporate none of the fast-acting hydraulic rams of race-circuit active suspension designs. They use instead conventional three-way adjustable shock absorbers. Transducers monitor speed, braking and steering wheel position, and there is also a pendulum or moving-ball device which detects movements of the car's body.

"This last device is a bit like a something that can tell yon whether it is day or night, but cannot define just how bright the light is," says Michael Kellett, son of Lamerholm's managing director and, as technical director, leader of an eight-man research and development team at the Stevenage plant.

"Where our system differs is that the crude pendulum or moving-ball unit is replaced by an electronic control box containing three transducers," he explains.

These types of transducer, known as accelerometers, measure precisely the acceleration forces at play as the car body rocks from side to side, back and forth and up and down. It then takes just a 50th of a second for the unit to put the shock absorbers into the correct setting, a position which is held for at least half a minute.

Placed just above the vehicle's front axle, Lamerholm's electronic control box contains a microprocessor which is programmed to spot any problems with the system. For instance, should the steering wheel sensor signal that the car is turning, but the side-to-side accelerometer show erroneously that the vehicle is continuing in a straight line, then the system will switch itself off.

In such a case the shock absorbers are automatically switched to their hardest setting, which is recognised as the safest, if not the most comfortable, for driving. In addition, a warning signal that the system has failed is given to the driver.

The software in the microprocessor is also programmed by Lamerholm so that, when the vehicle is subsequently taken into a garage, a mechanic can plug the electronic control unit into any IBM or compatible personal computer and see on screen exactly which part of the system has gone wrong.

"The advantage of us supplying the complete electronic system is that it takes our high-value product expertise into the mass market side of our business," says Michael Kellett.

Lamerholm also makes expensive electronic measurement equipment for companies like British Telecom and STC of the UK. But cheap transducers for the motor industry now account for 50 per cent of sales by value and have been largely responsible for a doubling of turnover to £2m over the last three years.

"Our main rivals in the transducer market have traditionally been Endevco of the US, Kistler of Switzerland and Bruel and Kjoer of Denmark," says Peter Kellett. "But none of these have moved into the automotive market, where we now face competition from more diversified electronics groups, like Bosch of West Germany and SEV of France."

"ADAPTIVE" electronic control of car suspension assesses manoeuvres, like cornering and braking, and puts the shock absorbers into the best position for vehicle handling and driver comfort.

The system developed by UK electronics company Lamerholm Fleming will go into full production in about 12 months. Like designs already in use, it features sensors which monitor the car's speed, braking and steering wheel position. The advantage it is said to have over such systems is the incorporation of an electronic control box, which measures precisely any movements in the car's body.

The box does this through three transducers, devices which convert the side-to-side (lateral), backward and forward (fore/aft) and up-and-down (vertical) movement of the car into electrical signals.

These types of transducer are known as accelerometers in that they measure the acceleration of the forces at play. The lateral and fore/aft devices are about 4cm long and consist of a weight attached to two sandwiched strips of metal. At the bottom of the strips are four wires, two bringing in an electric current and two taking it out.

As the vehicle moves, so does the weight on the end of the transducer. The metal strips bend and change the electrical resistance in the wires. Thus a microprocessor in the control unit can judge the exact movement of the car.

The vertical accelerometer is different in that it is round (about the size of a 10p piece). The top part acts as the weight and as the car bumps up and down it puts pressure on two crystals which give off the required electrical current.

Supplied with this information, the electronic control unit then adjusts the hydraulic shock absorbers into a soft, normal or hard position.

Such three-way adjustable shock absorbers work by altering the flow of either gas or oil between two chambers. Lamerholm's control unit adjusts this flow by opening and closing valves between the chambers.

Graffiti: the writing is on the wall

Paul Abrahams looks at new ways to thwart the underground daubers

KILROY, universal hero of the graffiti writer, has been everywhere these days; and not only is he becoming more ambitious in his vandalism, he is also increasingly international.

Public administrations in both Europe and the US, bedevilled by the fashion in pop art graffiti, are turning to scientists for help against the spray-can invasion.

"There has been an extraordinary explosion in graffiti," says Michel Dubois, spokesman at the Paris metro, Regie Antonome de Transport Parisien (RATP). "We had always had some political slogans, but in March 1986 we snddenly started seeing American-style designs on a mass scale. Whole stations would be covered in a single night."

It is a problem which managements cannot afford to ignore. A report on crime and safety on the London underground last year showed that the public were more concerned abont graffiti than more serious crime.

"It is just not good business to leave graffiti on trains and stations," argues Jared Lebow, press attaché for the New York City Transit Authority. "We need to reclaim the stations and cars from vandalism and graffiti."

Bnt graffiti eradication does not come cheap. Last year the transit authority spent $33m (£18m) on a graffiti clean-up campaign for its subway system; the Paris and London underground networks spent FFr14m (£1.3m) and £1m respectively.

Graffiti squads set up by the police to deal with the problem in Paris made more than 750 arrests last year; similar squads in London arrested 500. But there is no sign of the scourge abating.

The only alternative for underground managements is to fall back on cleaning off the scrawl.

"The aim is to remove the graffiti as soon as possible," says Lebow. "The vandals get their motivation by seeing their design or signature travelling on the system. If you remove the graffiti, you remove the motivation."

Both London and New York are testing new cleaning agents. Many anti-graffiti products have powerful solvents which damage surfaces as well as removing the paint. Some require ebrasion which often leaves a ghost image of the original design. Also the fumes can be difficult to dispel underground.

Spray paints tend to sink into walls with absorbent surfaces and the only remedy is repainting – an expensive and labour intensive process.

In New York, the transit authority has adopted a system which sppears to overcome most of these problems. It has contracted a Stamford-based company, International Graffiti Control Inc, which offers both new products and maintenance arrangements.

Ralf Steinlechner, company president, says it has developed a series of solvents which can tackle paints on a wide range of surfaces. After removal, a wax silicon paste is applied to provide a seal. This stops paint being absorbed into the wall and permits easy cleaning.

Steinlechner will not give details of the solvents: "It's like Coca Cola. You can analyse it, but you can't tell how it's been mixed, heated or shaken." But he does admit that the solvent makes the paint expand. This forces it away from the surface of the wall and allows it to be removed with water.

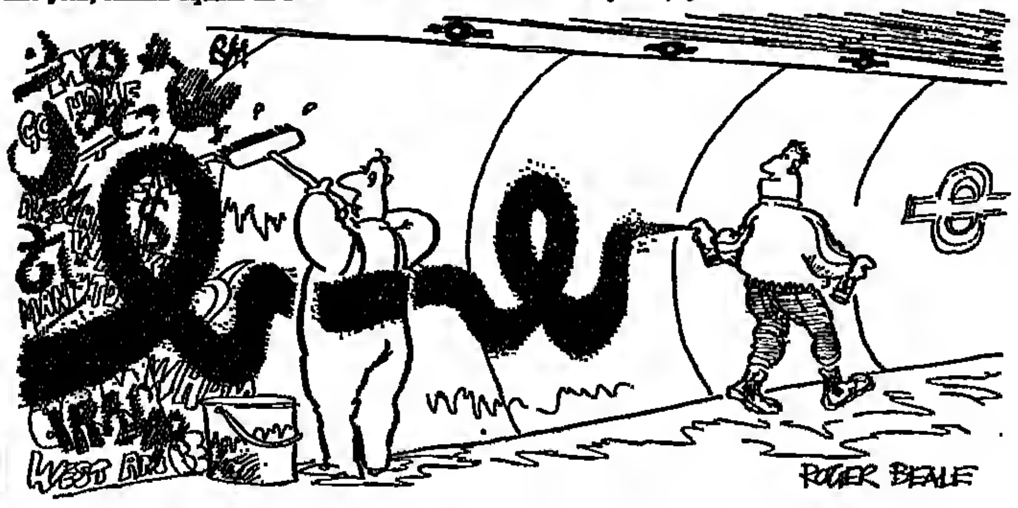
However, he believes the system's success is based as much on the maintenance contracts as on the cleaning agents. Once the walls have been protected, he undertakes to keep them clear of graffiti for a monthly fee. He says RATP and a British company are interested in his system.

This month, the transit authority succeeded in bringing 116 stations into its anti-graffiti scheme using Steinlechner's system. The *aim is to cover 130 stations by* the end of the year, at a cost of $400,000. As for the trains, an extra 770 cleaners have been employed to prevent any carriage making a return journey without being cleaned. Some 5,300 carriages are now dealt with in this way.

In London, where the problem is not so acute, London Regional Transport is testing a new anti-graffiti system, from Hull-based Croda International, at Embankment station.

The company *claims* that *its* super-hard lacquer, which protects the walls against most chemicals, dries in air without curing agents and provides a transparent protection. The solvent, called Crodec, is odourless and can easily be used in underground tunnels.

Croda expects the market in the UK to be worth about £2m a year.



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UK NEWS

Ridley defends need to ease planning brakes

BY JOHN HUNT

MR NICHOLAS Ridley, the Environment Secretary, last night strongly defended his planning policies for the south east and indicated that there will soon have to be revised figures increasing the number of new homes that will be permitted in London and the home counties bordering the capital.

There was little in his speech to placate his critics in the vocal "Sane Planning" group of about 50 Conservative backbenchers who are worried at the increased housing development in the countryside.

Mr Jerry Wiggin, chairman of the group, said: "Naturally I am concerned about the reiteration of his view about expansion for the south east." However, he did not see the speech as "throwing down the gauntlet".

Mr Richard Bate, senior planner of the Council for the Protection of Rural England, commented: "The general message coming from the speech is to encourage developers to try their luck in the countryside."

In 1986 Mr Ridley agreed with Serplan, the committee of south east local authorities, that 460,OO extra dwellings would be required in London and the south east from 1991 to the year 2001. Of these, 150,000 would be in Greater London and 310,000 in the home counties.

However, last night he said that in view of projections of the increased number of households in the south east, more extra homes in the home counties would he needed although London would continue to take a large proportion of them.

Mr Ridley said that new housing development in the inner cities and northern England, although being encouraged by the Government, could not alone provide all the new homes needed.

"The fact is that it is simply not possible to accommodate all demand in towns or force all development into towns and cities," he said.

Nicholas Ridley: Tightening belt on the countryside

However, he did please the conservationists by announcing a review aimed at giving local authorities greater powers to deal with breaches of planning laws in green belt areas.

Green belts are areas of protected countrysida surrounding major towns and were originaliy designated to limit urban sprawl.

The Environment Secretary said the Government had been robust in defending the green belts. However, most of his opponents do not dispute that. Their main concern is with new building on agricultural land outside the green belts.

Mr Ridley said that developers who persisted with applications which flew in the face of green belt policy would not succeed. He repeated his warning that if they persisted with lengthy planning enquiries they might well have costs awarded against them.

A decision to release green belt land for development would be likely to cause deep divisions in the Tory party as many MPs represent constituencies where many voters have vested interests in the land.

Comment, Page 22

Downing St neighbours agree to differ

BY PETER RIDDELL, POLITICAL EDITOR

EVERY TIME the pound rises sharply, there is renewed speculation in the markets that Mr Nigel Lawson is about to resign as Chancellor of the Exchequer. And the Treasury has to issue another denial.

This has happened four or five times since the pre-Budget airing of differences between Mr Lawson and Mrs Margaret Thatcher, Prime Minister, about exchange rate policy.

Mr Lawson was never likely to quit and he, and the Treasury, are understandably annoyed.

This speculation can be seen as the naivety of the City of London about the world of Whitehall and Westminster, but it is not as simple as that. The very repetition suggests that something is amiss.

For instance, two weeks ago this paper noted that Tory MPs were reporting with astonishment that Mrs Thatcher had been seen wagging her finger and apparently upbraiding Mr Lawson in the House of Commons. Mr Lawson has denied any argument and has said he was merely having a conversation with Mrs Thatcher,

What is significant is that several Tory MPs, inclnding loyalists, said they had seen the alleged finger wagging and interpreted it as npbraiding. The MPs, and the markets, were on the lookout for a possible row and the report was mistakenly seized upon to spread another rumour about possible resignation.

The real position is less dramatic, but no more satisfactory. There has been a long-standing difference of view between Mrs Thatcher and Mr Lawson and Sir Geoffrey Howe, the Foreign Secretary, about the merits of full membership of the European Monetary System.

There was an agreement to differ, although between early last year and this February sterling in practice shadowed the EMS. For the Treasury this produced the desirable position of a stable exchange rate and relatively high interest rates as a damper on domestic inflationary pressures.

This position broke down just over two months ago when strong upward pressure on sterling and the concern of Mrs Thatcher's advisers about the extent of foreign exchange market intervention led to a change of tactics with the pound allowed to rise above DM3.00

Mrs Thatcher then compounded the adjustment problem with her remarks abont "not bucking the markets" which were seen to conflict with Mr Lawson's opposition to a further rise in the pound.

This created bad feeling just before the Budget, but both participants recognised the need to avoid conflict, at least in public.

Heoce, while recent events have not exactly made the Downing Street neighbonrs bosom pals, talk of sudden resignation is far-fetched. However, exchange rate policy is not back on track. The pre-Marcb position always represented a compromise, which would have been difficult to restore even in more stable financial markets than now prevail.

Hence, while receot events have not exactly made the Downing Street neighbours bosom pals, talk of sudden resignation is far-fetched. However, exchange rate policy is not back on track. Mr Lawson may be clear about the policy objective of a stable pound, bnt this makes it no easier to achieve. Once the genie is out of the bottle, it is hard to put it back in.

The other strand is Mr Lawson's desire not to serve as Chancellor of the Exchequer for the whole of this parliament – a view made known before the pre-Budget row.

The whole episode reflects on Mrs Thatcher's at times inconsiderate and dismissive way of treating close colleagues, while leaving a publicly loyal Mr Lawson trying to make the best of an unsatisfactory position.

Electricians' union vote may precipitate removal from TUC

BY PHILIP BASSETT, LABOUR EDITOR

*LEADERS of the EETPU electri*cians' union yesterday decided to ballot members on what would amount to the union's continued membership of the Trades Union Congress, the union umbrella body.

If the electricians' move precipitated the union's departure from tha TUC it would raise the prospect, long threatened, that an alternative body be set up to the Congress. It may also berald a debilitating and destabilising inter-unioo recruitment war throughout the UK.

The 15-strong EETPU executive yesterday made three unanimous and far-reaching decisions. These were:

- To refuse to accept censure by the TUC for the electricians' role in tbe 1986-87 dispute between News International, the newspaper publishers, and the printers' unions at Wapping in London. The union's leaders will oot attend this month's TUC General Council meeting to receive the censure
- To reject the instructions by the TUC's inter-union disputes committee to withdraw from two of the electricians' controversial single-union, strike-free agreements
- To ballot its 360,000 members next month on a rule change making it clear that it must be the union, and not the TUC, which determines the nature of the EETPU's industrial agreements.

EETPU leaders will urge members to vote for the union's autonomy. The result will be known in mid-July.

Mr Eric Hammond, the union's general secretary, said yesterday that the union was defining the issue as one of changing rules for the purposes of the ballot so it could claim the £100,000 cost of it from the Government, bnt that the literature accompanying the ballot "will sbow thet the issue is our membership of the TUC."

The ballot result is expected to show a large majority in favour of tbe union ratber than tbe TUC. This alone would not take the union outside the TUC, but would confirm the executive's rejection of the two disputes committee deals. That, under TUC rules, would likely see the union suspended and possibly expelled permanently.

The TUC General Council will discuss the EETPU's decisions later this month. However, Mr Norman Willis, TUC general secretary, said yesterday that TUC membership required nnions sometimes to accept decisions which went against them.

BP director in line for top electric industry job

By Maurice Samuelson

MR ROBERT MALPAS, technical director of British Petroleum, is expected to be given a significant role in running the electricity industry when it is radically restructured under the Government's privatisation proposals.

Mr Malpas, 60, has been offered the chairmanship of Little G, the generating company to be formed out of about 30 per cent of the Central Electricity Generating Board's generating capacity.

Big G, which contains the rest of the power stations including all the nuclear plant, will be run by Lord Marshall, the present chairman of the CEGB.

Little G, as it is provisionally nicknamed, will be one of the biggest industrial companies in Britain, with assets, at current replacement costs, worth about £7bn.

Mr Malpas was out of the country and not available for comment last night. The Department of Energy said final decisions had not yet been made but that the industry's senior appointments would be announced in two or three weeks.

Before joining the BP boad, Mr Malpas worked for five years in tbe US, having previously spent 30 years at ICI, where he was once thought to be in the running to become chairman.

Hitachi to pay BTG royalties on scanner

BY DAVID FISHLOCK, SCIENCE EDITOR

HITACHI, Japan's biggest electrical products groups, has agreed to pay royalties to Britain on sales of its nuclear magnetic-resonance medical scanners.

Hitachi is the first major Japanese maker of NMR medical imaging systems to acknowledge that the British Technology Group holds the basic patent rights to the technology.

Last summer General Electric of the US, market leader in selling NMR systems, agreed to pay BTG royalties on a portfolio of 16 inventions assigned to the company by the universities of Nottingham, Aberdeen and Oxford.

BTG has already paid the three universities and some individual university inventors a total of more than £3m in royalties, mostly from the first GE payment, and the same teams can expect more from the Hitachi agreement.

BTG expects NMR medical imaging to become its biggest single source of income before its patents run out in 1996.

A world market worth between £300m and £600m. is forecast for next year, based on systems for which it believes it hold the basic patents.

It claims that two other major Japanese makers, Toshiba and Shimadsu, are using its patents, as are Philips and Siemens in Europe.

Dr Derek Schaefer, BTG's operations director who has led negotiations with the Japanese companies, described the Hitachi agreement as an important milestone in licensing its patent portfolio. "It also emphasises the growing importance of technology transfer between Britain and Japan, an area in which BTG is playing an increasing role," Dr Schaefer said.

Last month the Department of Trade and Industry commissioned a study of BTG by Cooper & Lybrand, to advise on the potential for privatising the technology transfer agency.

Sports venture for Jaguar

BY JOHN GRIFFITHS

VERY high performance versions of Jaguar cars are to be built by a joint venture company set up between the Coventry-based vehicle maker and TWR Group.

The 50-50 joint venture, JaguarSport, has been capitalised initially at £5m and expects to produce up to 2,500 vehicles a year, depending on demand. The company will be based at TWR's headquarters at Kidlington, Oxfordshire.

The first JaguarSport model will be announced later this year. Eventually, derivatives will be produced of both the XJ saloon and XJ-S coupé ranges, available through Jaguar's own distribution network. An initial output of 500 units a year is expected, with sales concentrated in Europe.

The joint company puts on a more formal basis a relationship between the two companies which dates back nearly five years. TWR-prepared Jaguars have won both the European and world sports car championships.

UK NEWS

Ward loses appeal over £5.2m Guinness fee

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

MR TOM WARD, a US lawyer and former director of Guinness, improperly received £5.2m from the company "in plain disregard of his duty to the company," the Court of Appeal in London ruled yesterday.

The payment, alleged to have been for Mr Ward's services to Guinness during its takeover bid for Distillers, was not disclosed to a meeting of the full Guinness board. It had, therefore, breached both the company's articles of association and the Companies Act, the court said.

Mr Ward, who was ordered to pay Guinness' costs, was refused leave to appeal to the House of Lords. He is likely to seek leave directly from the Law Lords.

Mr Ward had appealed against the High Court's decision that Guinness was entitled to immediate repayment of the £5.2m, without the case going to full trial.

Mr Ward argued that there was a major dispute about the facts surrounding the payment that could be resolved only at a full trial.

Lord Justice Fox said that Mr Ward alleged an oral agreement between himself and Mr Ernest Saunders, then Guinness's chairman and chief executive, that he would be paid £5.2m for his services and advice as a business consultant to Guinness.

The company denied that there had been any such agreement but said that, if there had been, it had been made in breach of Mr Ward's fiduciary duty as a director.

The judge said that Mr Ward had admitted that the payment had not been disclosed to the full board. He had contended that such disclosure had not been necessary as the payment had been known to a board sub-committee, consisting of himself, Mr Saunders and Mr Olivier Roux, then Guinness's finance director, which had been set up to conduct the bid.

Lord Justice Fox said section 317 of the 1985 Companies Act stated that a director had a duty to declare the nature of his interest in a contract with the company "at a meeting of the directors of the company."

Those words, said the judge, could not be satisfied by disclosure to a board sub-committee.

The relevant Guinness article had the same meaning as the section.

Mr Ward argued that the articles permitted a director to act in a professional capacity and to be paid as if he were not a director.

Rejecting that argument, Lord Justice Fox said that a director was in a fiduciary position and was not permitted to obtain a profit from his position without the consent of, in practice, the board.

Mr Ward had never had a good legal title to the £5.2m, Lord Justice Fox concluded. The money had always been Guinness' property and the company was entitled to get it back.

UK broadcasting venture signs satellite equipment contracts

BY RAYMOND SNODDY

BRITISH Satellite Broadcasting, the UK's £625m direct broadcasting by satellite venture, yesterday announced detailed plans for the manufacture of the consumer equipment needed to receive its three new national channels of television.

BSB said it had signed contracts with Intermetall, the West German subsidiary of ITT, for 4m sets of microchips for the receiving equipment and a long-term contract with General Instrument of the US for conditional access modules.

Conditional access is the coding technique to be included in each BSB receiver so that the company can control who receives the pictures. The conditional system will be used for BSB's subscription service, Screen, based on recent films and to charge for special events such as boxing championships.

Mr Graham Grist, managing director of BSB, a consortium including Granada, Virgin, Pearson, publishers of the Financial Times, the Bond Corporation of Australia and Reed International, said the contract with Intermetall would be worth £50m and the General Instrument deal could be worth between £100m and £200m.

At present, however, BSB is only formally committed to less than $5m "seed money" as a result of the contracts. The rate of purchase of the key components, which will be made available to manufacturers of BSB receiver equipment, will depend entirely on demand for the equipment.

BSB hopes that 2.5m sets of receiving equipment will be sold by 1992, the third year of the project's operation.

The first of two BSB satellites are scheduled for launch in August 1989 and broadcasting is due to begin in late September. The company said yesterday BSB hoped that its considitional access system would become a European standard and had set up a joint venture company with General Instrument to distribute the equipment to the member nations of the European Broadcasting Union.

BSB also announced yesterday the names of 15 consumer electronic companies invited to tender for the production of the receiving equipment which BSB hopes will cost around £200.

The company planned to give three companies the exclusive contract for the first three years as a way of ensuring long production runs and the benefits of economies of scale to keep the price as low as possible. BSB is now talking about choosing three to five companies from the following:

Amstrad, (a BSB founder shareholder which pulled out), Bosch, Finlux-Lohja,General Instrument,Grundig,Hitachi, NEC, Panasonic, Phillips, Salora, Sony, Tatung,Thomson/Ferguson, Uniden and Wolsey/AB Electronics.

Mr Anthony Simonds-Gooding, chief executive of BSB, said yesterday he believed it was in the interests of the Government and its desire to create more choice for the consumer and more competition in British television if BSB had a "window of opportunity" until 1995. It would take five years, when BSB aims to be available in 5m homes, 25 per cent of the total, for the satellite company to attract serious advertising revenue.

Mr Simonds-Gooding said: "I am totally convinced they (the Government) will do nothing that will put BSB at risk."

BSB investors, who have to raise the remaining £400m in the City of London next year, are concerned that the Government will give "premature" permission for the launch of a land-based fifth channel.

Railway to adapt to continental freight

BY KEVIN BROWN, TRANSPORT CORRESONDENT

BRITISH RAIL is unlikely to alter its rail network to take larger continental freight wagons after the Channel Tunnel opens in 1993, BR officials said yesterday.

BR has come under strong pressure from some private wagon operators to convert major freight routes from the narrow British loading gauge to the wider and higher Berne gauge which is used by most continental rail systems.

Railway managers believe, however, that the present limitations of the British gauge can be overcome through the use of technological developments such as the small wheel bogey, which is being developed in the UK by Gloucester Rail and Carriage.

This would avoid the need for highly expensive and extensive modifications to the railway infrastructure, principally tunnels and platforms.

Mr Graham Boyes, European strategy manager of BR's freight division, told a conference on the Channel Tunnel in London yesterday that the small-wheel bogey would enable BR to carry any container or trailer capable of operating on continental railways.

Mr Boyes said BR studies showed it would cost up to £70m simply to convert the 10-mile stretch of track from the Tunnel mouth to Ashford in Kent, where an international station is to be built to handle cross Channel rail traffic.

BR also fears that it could lose business unless track conversion provided a Berne gauge route from the Channel to Scotland.

This is because a short route to Kent or London would encourage operators to switch to road transport for long-distance cargoes.

Mr Boyes said BR had agreed with the French and West German railway authorities that trans-shipment should be avoided to protect the railways' share of the overall transport market.

BR's reluctance to convert track to accept Berne gauge traffic is likely to mean a significant boost for wagon manufacturers because only a small proportion of existing UK rolling stock is capable, for technical reasons, of running on continental track. Even fewer European wagons have been constructed to UK specifications.

BR believes about 4,000 new wagons will be required for Channel Tunnel traffic, which is expected to total more than 6.1m tonnes in 1993, compared to less than 1m tonnes on the existing rail ferry.

Smaller airlines battle for European routes

By Michael Donne, Aerospace Correspondent

THE BATTLE between independent UK airlines for new scheduled services between Gatwick Airport, south of London, and the Continent intensifies later this month when the Civil Aviation Authority begins a further round of public hearings into the airlines' bids.

The CAA has already heard arguments from Air Europe and others about the routes from Gatwick to Paris and Brussels and the further hearings now planned will cover the routes from Gatwick to Athens, Milan, Nice and Rome.

These are among the routes formerly either flown, or for which licences were held, by British Caledonian but which were surrendered to the CAA by BA following its take-over of BCal.

Air Europe is applying for Rome and Milan, Birmingham Executive wants Milan, Britannia Airways wants Athens and Nice, while both British Island and Dan-Air also want Nice, and Orion Airways wants Athens.

British Airways is exercising its right to reapply for the Gatwick-Nice route.

The CAA has allocated five days for the hearings, from May 23 to 27, in anticipation of a fierce verbal struggle from the airlines involved.

UK NEWS

Bovis takes over US construction manager group

BY ANDREW TAYLOR

BOVIS, the construction arm of the P&O group, yesterday announced that it had purchased the remaining 50 per cent of Lehrer McGovern Bovis, construction manager of two of Europe's biggest developments.

Lehrer McGovern Bovis, an Anglo-US joint venture in which Bovis acquired a 50 per cent stake in October 1986, is construction manager for the $1bn Euro-Disney centre near Paris and for the £1bn first phase of the Canary Wharf office project on the Isle of Dogs, in the dockland region of London's east end.

The £3bn to £4bn Canary Wharf development ranks as Europe's biggest construction project. Olympia & York the privately-owned Canadian property and resources group, is developing the scheme.

Lehrer McGovern, a privately-owned New York company, was established in 1979. It is the seventh largest construction management company in the US. Its contracts have included the restoration of the Statue of Liberty and Ellis Island where immigrants to the US traditionally made their first landfall.

The company also managed the reconstruction of New York's Central Park Zoo.

The relationship between Lehrer McGovern and Bovis is one of several joint ventures forged in recent years between British construction groups and US construction management companies.

George Wimpey, one of the UK's largest contractors, last year formed a joint venture with Tishman Realty and Construction, a privately-owned New York company which helped construct the 110-storey twin towers of the World Trade Centre in New York, the 100-storey John Hancock Centre in Chicago and Walt Disney's $1bn Epcot Centre in Florida.

Wimpey-Tishman is offering construction management for large UK projects.

Schal, one of the earlier US construction management groups to establish itself in the UK, has worked on a number of British projects including joint ventures with Bovis and with Tarmac, Britain's biggest construction group.

By forming joint ventures with British contractors, US groups have achieved a foothold in an expanding British construction market which last year increased its output by 8 per cent – the biggest annual increase for more than 20 years.

British companies have in return been exposed to North American-style fast-track management and construction techniques.

Mr Frank Lampl, chairman of Bovis, said the combination of British and American resources and know-how had contributed to a £2.5bn construction order book for Bovis construction companies.

Bovis is thought to have paid about $15m for the the remaining 50 per cent of Lehrer McGovern Bovis.

Mr Peter Lehrer and Mr Gene McGovern will remain as co-chairman of Lehrer McGovern Bovis and expect to increase their involvement in the management of other Bovis construction interests.

Lehrer McGovern Bovis employs about 700 people and has offices in New York, Washington DC, New Jersey, California, Maryland, Philadelphia as well as in London and Paris, France.

● Elders IXL, the Australian group best known for its Foster's lager, will announce details today of a plan to put its 5,000 Courage public houses in the UK into a joint venture with a property company, writes Lisa Wood.

The proposal, disclosed earlier this year, follows the failure of Elders' plan to wrap up Courage's estate of pubs into a £1bn company and float about half of it on the London stock market.

Elders' partner in a joint venture for its pubs is understood to be an Australian property company.

Clydesdale Bank plans expansion in England

By James Buxton, Scottish Correspondent

CLYDESDALE BANK, the Glasgow-based institution which is now owned by National Australia Bank, yesterday announced changes in its structure designed to pave the way for its planned expansion into the south of England market.

The bank, which National Australia acquired last year from the Midland, has been divided into three profit-accountable divisions responsible for retail banking, corporate and international banking, and financial services.

Mr Richard Cole-Hamilton, the chief executive, said yesterday that the bank's plan was to consolidate its position in Scotland and to push on into England where it already had branches in London and the North. Europe would come later.

"Wa intend to be a new game player in England and a niche player in the important London market. In Scotland we see ourselves as high quality national bank." He did not elaborate.

Under the new structure the retail banking division is to set up regional managers responsible for different parts of Scotland, with one responsible for England where the bank was hitherto prevented from expanding because of its relationship with the Midland Bank.

In order to strengthen the bank's position in Scotland, where it has lost ground in recent years to the other Scottish banks, the Royal Bank of Scotland and the Bank of Scotland, the regional managers will be given increased responsibility.

The three divisions of the bank are all headed by long-serving employees of the Clydesdale, with Mr Ritchie Robertson responsible for retail banking, Mr Ian Cook for corporate and international and Mr John McKinlay for financial services.

Ford gives car servicing a wrench

Ford's managing director Mr Roger Humm (right) describes his company's plans as a revolution. **John Griffiths** examines the volume car manufacturers' bid to wrest back the after-sales business which has been lost to 'fast-fit' car service groups

JUST ONE ingredient seems to be missing from preparations being made by the franchised UK motor trade for a sales and service revolution – rest rooms for customers to recover from the shock.

For years, many UK motor traders, particularly those with volume car franchises like Ford, Austin Rover and Vauxhall, have stood and watched ineffectually as parts, accessories, service and repairs business was grabbed from under their noses by low-margin, high turnover and, above all, customer service-oriented "fast-fit" and mass-retailing organisations.

Some garages have belatedly counter-attacked with individual fast-fit and fixed-price servicing schemes and through a new emphasis on training for staff who meet the public directly.

However, Ford, the UK's car market leader, recently injected fresh impetus into the intended fight-back with presentations to its more than 1,000 dealers of what it called a retail strategy for the 1990s.

Drawn up over two years by 20 key dealers and Ford executives, its detailed contents remain mostly secret.

Enough has emerged, however, to indicate that Ford envisages a revolution in the way its dealers sell and, in particular, service cars and otherwise cater to what is known as the aftermarket.

Indeed, "revolution" is a word Ford managing director Mr Roger Humm actually uses in addressing the dealers.

Much of the investment foreseen by Ford will be in a national network of large, out-of-town sites to undertake fast-fit repairs and fixed-price servicing on all makes of cars. This would be coupled with parts and accessories sales along the pile-it-high, sell-it-cheap principles of specialist quick-fit operations and mass-retailing groups.

This alone would be in stark contrast to the image of the traditional motor trade thrown up by seemingly endless surveys from the Consumers' Association and Trading Standards Officers. The image is of widespread, though not necessarily justified, suspicion of high parts and service charges, which most customers are ill-equipped to dispute, with a receptionist steeped in the arts of verbal defence and of preserving a *cordon sanitaire* between mechanics and customers.

If Ford succeeds, though, and the out-of-town sites are owned and operated by dealers which retain their Ford-dedicated and conventional car sales and service operations, that image will also become irrelevant.

Douglas Seaton, a Ford main dealership in Yeovil in south west England, is already providing a taste of what might be expected. Customers calling at Seaton to collect a serviced car find a business card attached to the invoice. It bears a photograph and name of the "technician" – the term mechanic is no longer used - who worked on the vehicle and offers a face-to-face discussion of any problems.

According to managing director Mr Trevor Curphey, a member of Ford's retail strategy team, this approach has been exceptionally well received, together with other touches like having every serviced car washed and vacuumed as a matter of course.

Customer care briefings have been taking place at the dealership group since its own first strategy meeting five months ago at which, Mr Curphey explains, "we showed our staff the Marks and Spencer approach, and that we needed to at least match it."

For some staff, the attempt to improve standards has been traumatic. For example, Seaton now uses an agency which telephones all departments every two months posing as customers. Conversations are taped and later played to the employee.

Inducements accompany the chastisements, though. Staff can have petrol at cost price, there are employee car-lease and low-finance schemes and pensions for all. Most hourly-paid employees are being given staff status.

If such strategies work, franchised dealers in volume cars, backed by their manufacturers, should be able to wrest back at least some of the lost service, parts and accessories business. By some dealer estimates, only 15 per cent of total service work on Ford cars in the UK is actually carried out by Ford dealers and only 5 per cent of cars see a franchised dealer's service bay after it reaches three years old.

The picture is little different at other franchises. Austin Rover, Vauxhall, Peugeot all have training schemes and other incentives programmes aimed at keeping a greater proportion of servicing – and keeping or adding to customer goodwill.

The significance of Ford's plans lies both in the proposal to use out-of-town sites, which the company says it will finance if the dealers will not, and in the company's UK market strength: its market share of nearly 30 per cent is almost double that of second-placed Austin Rover.

Austin Rover and other rivals say they have no plans to emulate Ford's move. Perhaps surprisingly, Ford's intended rivals in the sector appear pleased, not dismayed, by Ford's move.

Halfords, the Ward White retailing group subsidiary, is investing more than £100m in 200 out-of-town motor parts and accessories stores, many with fixed-price servicing facilities. Mr Ian Staples, managing director, says that Halfords is "quite delighted" with the move as it would make its own operating concepts "even more acceptable to the consumer."

The concept includes seven-day opening until late in the evening and "honest, open service bays accessible to the customer," claims Mr Staples. He suggests that Ford "is reacting to what we have been doing."

Halfords believes that with more than 18m cars on the road now and continuing growth in two-car and three-car families, there do not have to be any losers except, perhaps, small and independent back-street garages.

Mr Farmer, whose Kwik-Fit Euro organisation is by far the largest specialist fast-fit chain in the UK, says he does not think that a Ford chain and his own would necessarily be in direct competition, as many of Kwik-Fit's outlets are deliberately placed in urban areas.

Nevertheless, he suggests, the traditional garage trade will have to do much better than in the past if it is to have any hope of success. "There has been little appreciation of the density of management you need to operate this business properly."

By 9.30 each morning, Kwik-Fit's Edinburgh headquarters has a detailed breakdown of the previous day's sales from each one of its 420 outlets. These started out in the replacement exhaust, batteries and tyres market, but Kwik-Fit is moving into areas like clutches, steering and braking systems.

Mr Farmer also welcomes Ford's entry to the market. He also believes that there is plenty of room for efficient new entrants. Kwik-Fit itself plans to have 1,000 outlets in the UK by the early 1990s, to tap what by Kwik-Fit's estimates is a total automotive aftermarket – covering parts, accessories and also aspects of repairs and servicing – worth some £7bn a year.

He needs to be right. With UGC, better known by its Unipart trading name, also understood to be planning to spend up to £90m on out-of-town superstores, Woolworth subsidiary Charlie Browns Autocentres developing a national chain, and other established operators like Pirelli UK's SMC chain all seeking similar growth, the market already looks crowded.

Rothmans

The style changes – but the image lingers on

The UK-based group has been reshaped and is more efficient, but tobacco still dominates. Heather Farmbrough reports

HAS MUCH really changed at Rothmans, the large tobacco group which, along with other large players in the industry, set out more than a decade ago to diversify away from their reliance on a core activity under attack from the medical world and the anti-smoking lobby?

At first glance, the answer seems to be no. The location and activities of the company's worldwide interests are strikingly similar to those at the beginning of the decade.

Diversification into such areas as brewing, oil and gas pushed tobacco's contribution to group earnings down to 67 per cent by 1982. But a subsequent retrenchment has reversed the trend and tobacco earnings are back up to 80 per cent, with the rest coming from its interests in Dunhill and Cartier, international retailers of luxury goods.

Yet Sir Robert Crichton-Brown, the chairman, insists that a great deal has changed. He says that management style has altered throughout the group, a step which "was perhaps more important than anything else we did. It required us completely to change our culture and to pool our financial, technological and human resources. We then saw very quickly what steps had to be taken."

Sir Robert took over the helm in 1984, inheriting the early stages of a rationalisation programme that had been implemented by his predecessor, Sir David Nicholson, and the present chief executive, Vernon Brink.

This involved cuts in manpower and production in the UK and on the Continent in response to falling demand for cigarettes in the group's main market, Europe. The fall had been precipitated by health worries, the effects of recession and higher taxes on cigarettes.

Rothmans was the third largest cigarette manufacturer in the UK with 14 per cent of the market – it still occupies third place behind Imperial and Gallaher, but market share is currently around 9 per cent.

Other tobacco producers were experiencing similar difficulties and, in common with Rothmans, were also finding that the overcapacity created by falling demand was compounded by technological improvements in cigarette making machinery.

Rothmans was also having to adjust to changing political climates in Africa and the Middle East, where it had expanded rapidly in the 1970s. The company had exported cigarettes from its European factories. But by the 1980s, many countries were becoming increasingly nationalistic, reflecting not only a rising tide of nationalism but shortages of foreign currency, too.

Sir Robert Crichton-Brown: a great deal has changed

In Sir Robert's view, there were three main tasks:

- to increase the pace of cutbacks in production and manpower to stem overcapacity, while continuing to introduce faster and more efficient machinery;
- to change the way the international organisation was run. A complex web of associates and subsidiaries throughout the world needed to be tightened up into stricter reporting divisions to derive the greatest benefits from rationalisation taking place in the European factories;
- to devise and implement a clear strategy. Should Rothmans remain dependent on tobacco, or should it continue to diversify? Where did its other interests – ranging from brewing to oil and gas – fit in?

Four years later, it is the improvements in operating efficiency which have received most credit. "It's the best example of how the management really got down to it," Nyren Scott-Malden, an analyst at Barclays de Zoete Wedd, comments. "They went about it in a very logical and measured way."

In 1984, Rothmans introduced a central plan for each of its operating units and subsidiaries, setting strict financial standards and reporting requirements for each.

Layers of reporting chains were cut out across the company so that managing directors reported directly to their chief executives. The emphasis was on getting individual managing directors to take the initiative.

This, says Sir Robert, transformed the company from one which was "bound by hierarchical structures in which we were all good at writing letters but not at communicating."

Something of a revolution was also happening in the way "all the factories were forced to concentrate on the bottom line," as Vernon Brink says. "Inventories came under much tighter control; managers had to look more carefully at working methods and costing procedures."

Yet the push for change clearly came from the top after Sir Robert became chairman. Brink comments: "He provided a leadership figure which we needed in difficult times."

This was particularly so when it came to making the first total factory closure in April 1984, involving the loss of nearly 1,200 jobs.

"We agonised over closing a factory in England," recollects Sir Robert. "Eventually we decided we should shut our Basildon plant as it was the oldest and less efficient than those in the north-east."

The decision was particularly hard as Basildon was one of the oldest bases of Rothmans' UK production.

Rothmans tried to cushion the blow. It called in independent advisors to give financial advice, transferred some employees to other factories, and opened a small business centre with 40 workshops.

Further closures followed, in the UK and Ireland, on the Continent, and in Toronto, Canada, amounting to write-offs of £155m. Even the most recent 1987/88 interim figures showed a £7m write-off relating to closures in the Irish Republic and Singapore. The 1988/89 year, however, should be one with no closures and rationalisation costs.

Since 1982, Rothmans has bought and disposed of a 50 per cent holding in Rowenta, the West German domestic electrical appliance business, for £20m.

Last February, Rothmans' Canadian subsidiary sold its 50.1 per cent stake in the Canadian brewer, Carling O'Keefe, for £93.5m, markets having become more and more difficult since it was acquired in 1978. Rothmans also withdrew from Carling's oil and gas and its wine business. Rothmans Australia has a 50/50 interest in confectionery distribution there.

A measure of the improvement the group has achieved in efficiency is the profit performance in the first half of 1987/88. Interim profits increased by nearly 90 per cent to £140m, with turnover rising by only 8 per cent. Operating margins in subsidiaries rose from 6.8 per cent in the first half of the year to 14 per cent. The increase caught the City by surprise.

Rothmans was one of the strongest performing stocks on the FT All-Share index in 1987, fuelled for once by its results rather than, as in the past, speculation about a possible bid from shareholders Philip Morris and Rothmans Tobacco.

Philip Morris, the cigarettes, food and beverage, and finance group, has 29 per cent of the equity and 25 per cent of the votes, and Rothmans Tobacco, in which the controlling interest is held by Rembrandt, the South African tobacco, liquor and financial group, has 32 per cent of the equity and 42 per cent of the votes.

While Rothmans is clearly a far more efficient company than it was five years ago, observers are less convinced as to whether the company has yet achieved its other objectives.

The low profile of the main board directors makes it difficult to assess the strength of the management. In his own words, the chain-smoking Sir Robert Crichton-Brown has "played it low key. I don't like gazing into crystal balls."

As Mike Gearing, an analyst with James Capel comments, "arguably, the investment community may have credited the company with more respect for its disposals – notably the brewing side – than its acquisitions, although those of Dunhill and Cartier have been successful."

The question facing Rothmans is where next? Disposals, rationalisation benefits and a reasonable cash flow from cigarettes have left the group today with more than £400m in cash.

Tobacco markets show little sign of growth, apart from in developing companies, mainly in the Far East. The British tobacco industry is still declining by about 3 per cent a year, the US by 2 per cent. In the rest of Europe, Rothmans' best hope is to increase market share in static conditions by clever branding and marketing.

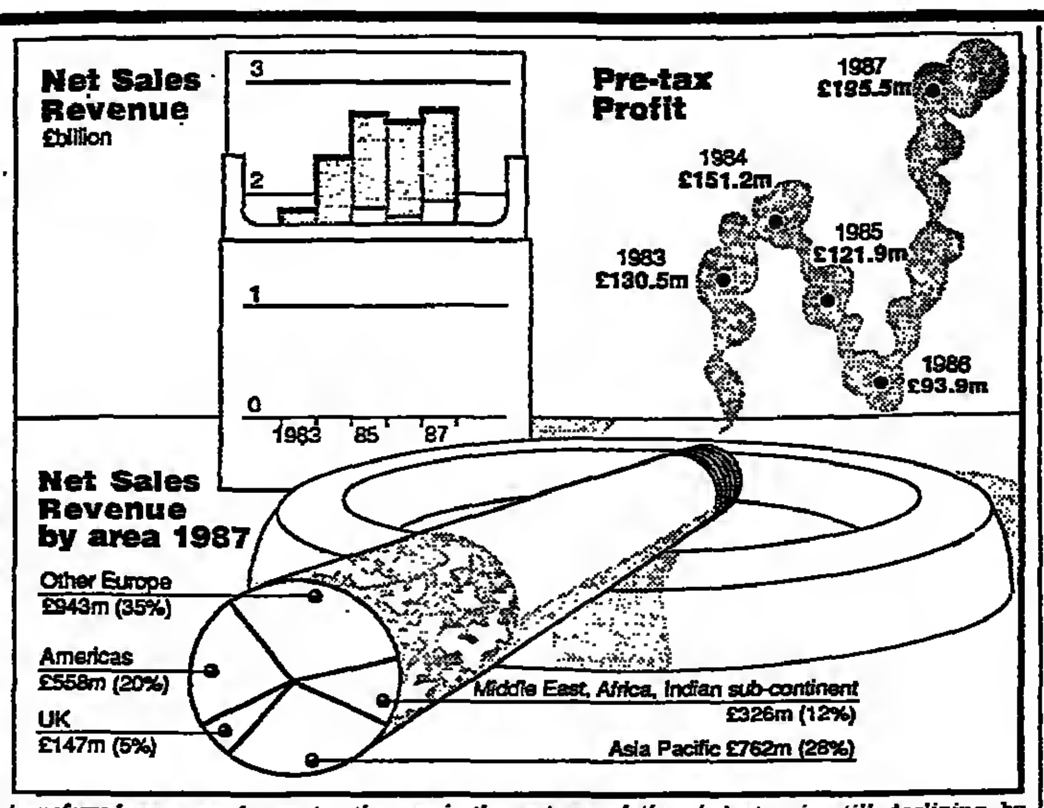
While Rothmans remains pretty dependent on tobacco earnings, its competitor BAT Industries now derives only half its trading profits from tobacco. The rest comes from financial services, including Allied Dunbar and Eagle Star, paper – Appleton papers and Wiggins Teape – and a small contribution from retailing – Saks, Marshall Field and Argos – (0.5 per cent).

Rothmans' interests in Dunhill and Cartier (50.6 per cent and 47.0 per cent respectively) are expected to provide the starting point for developing other up-market, branded consumer goods businesses.

The company will look for similar types of businesses with international markets. In the past, it has tended to opt for joint ventures overseas where owners and managers retain control.

The responsibility for diversification falls to David Montagu, the city financier who will become chairman on Sir Robert's retirement in 1989.

Rothmans will not find it easy to convince its sceptics that it is as good at building up new businesses as it is at rationalising. The image of the old group, with its somewhat unrelated subsidiaries straggling round the world, some involved in areas offering little strategic logic, will not disappear quickly.



BTR: no room for outsiders

Michael Skapinker examines the group's attitude to non-executive directors

THE BANK OF England, the Stock Exchange and the Confederation of British Industry think non-executive directors are an excellent idea.

Last year they gave support to a voluntary code of practise under which large companies would have at least three outside directors on their boards.

ICI, the British chemicals group, also believes in outside directors. It has non-executive directors from several countries, including Japan. It recently appointed Paul Volcker, the former chairman of the US Federal Reserve Board, to its board.

Sir Owen Green, chairman of the industrial conglomerate BTR, however, thinks the current enthusiasm for independent board members is "a fashion that's not going to get anybody anywhere."

It is not a popular view, but then the BTR chairman is no stranger to controversy – whether through his unsuccessful bid for the glass manufacturer Pilkington Brothers or through his well-known opposition to corporate involvement in community projects.

In their report to shareholders last month, Sir Owen and BTR managing director John Cahill said that the "familiar arguments which give increasing prominence to non-executive directors, in our view, depreciate the intelligence, the worldliness and the integrity of the executive director in large multi-national operations."

Some took this to mean that Sir Owen believed that company boards should consist entirely of executive directors. Not so, he says. BTR's own board has three non-executive directors. All, however, previously worked for BTR.

What Sir Owen is opposed to is the notion that a substantial number of directors should be independent outsiders who have never worked for the company.

"I don't think the case has been made that companies which have a greater number of non-executive directors on the board have a greater rate of success or a lesser rate of failure," he says.

He can see why smaller companies might need to have outsiders on the board. But in a large multinational, he argues, the executive directors are the ones with the real expertise.

"You would not become an (executive) director of Shell or of ICI unless you were a person of particular repute," he says. "I just can't see why it's felt necessary to have a significant number of non-executive directors to mix in with those people."

Outside non-executive directors, he contends, know only what the executive directors choose to tell them. "I think if you challenge a non-executive director, if you can really get under his skin so that he's really frank, he's bound to say, 'I'm really in the hands of the company.'"

Is there not a danger that all the executive directors might begin to see things in the same way? What of the argument that an outside director can provide the executive board with a fresh perspective?

Executive directors can provide each other with a fresh perspective, he argues. "Directors who are executives probably don't see each other very much anyway. Unless it's a very centralised set-up, they probably only meet at board meetings."

Couldn't non-executive directors from other countries help the board to understand foreign markets or different parts of the world? Executives in multinationals "have got those skills because they've served overseas," Sir Owen says. And if you're going into an entirely new market? Hire the expert executives, he replies.

What of the most important argument of all – that non-executive directors can ensure that the company does not become involved in illegal or irregular practices?

"I don't think there's sufficient evidence to support the idea that an increased number of non-executive directors will remedy any of the faults, problems or omissions that exist. At the end of the day I find it difficult to think that there's any remedy for bad management except to get the shareholders to vote with their feet," he says.

REINSURANCE

Haig Simonian on the way a West German reinsurance group is facing up to widening European markets

Munich Re puts a premium on competitive strength

MR HORST Jannott, the long-serving chief executive of Münchener Rückversicherung (Munich Re), the world's largest reinsurance group, is not a particularly passionate man. But the perennial rumours of an impending schism between his company and Allianz, Europe's biggest insurer, based just down the Königinstrasse in Munich, get him unusually hot under the collar.

"Such rumours are based on zero information, on zero real facts," he almost bellows. "It's completely speculative, just something pulled out of the air."

Speculation that Munich Re and Allianz, which hold reciprocal 25 per cent stakes in each other and together own Allianz Leben, Germany's biggest life insurer, might break apart is being fuelled by the rapid and unprecedented changes now taking place within the German insurance industry.

A number of cross-holdings between rival companies have recently changed hands, while Deutsche Bank, the country's biggest financial institution, looks set to create a considerable competitive stir later this year when, if as is widely expected, it enters the insurance business.

Mr Jannott, who has held the top job at Munich Re since 1969, vehemently denies the theory that Allianz will take over *Allianz Leben, while Munich Re* will be "compensated" by gaining control of Victoria Leben, another leading life group in which both are thought to have holdings.

"Allianz has no Victoria shares, has never had any and does not want any," he asserts. He angrily puts down such rumours to sales efforts by some of Germany's small, sensation-seeking, stockmarket newletters.

When it comes to prospects for Munich Re itself, Mr Jannott visibly softens. Net premiums rose by 1.2 per cent last year to almost DM12bn (£7bn), though the strong D-Mark hid the underlying growth rate in local currency terms. More important, the dividend was increased by DM1 to DM10 – the first rise for many years – on after-tax profits which rose to DM63.5m.

The outlook for the current business year, which ends on June 30, also looks favourable, despite last October's hurricane, which left a trail of damage across much of western Europe. Mr Jannott is reluctant to discuss details, but says that the figure for large claims in 1987 will come "roughly in the middle" of the "unusually good" result for 1986 and the very heavy claims seen in 1984 and 1985. Taking Europe as a whole, last October's storm cost Munich Re less than half the amount attributed to the Mexican earthquake in 1985, he says.

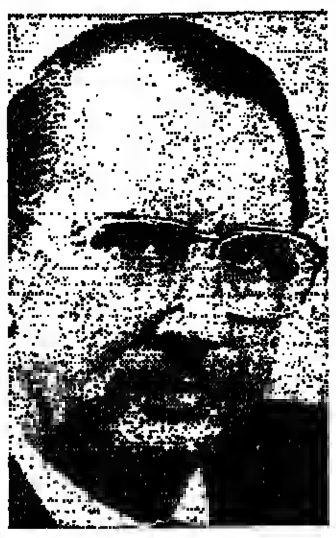
As for the stock market crash, *that had little practical affect on* the group, he says. Its equity holdings were already relatively low and were being run down. Moreover, the company has a policy of basing its portfolio holdings on lowest possible (the lower of cost and market value ever) values.

Another dividend increase is not on the cards for this year. Munich Re has regularly used both higher dividends and deeply discounted rights issues roughly every two to three years to raise funds from shareholders. With the growth in premium income depressed by the strong D-Mark, there is no immediate need to raise extra capital.

In January, the company bought New Re, a small Geneva-based reinsurer. Most analysts attributed the purchase to a belief that it could not crack the Swiss market – dominated by its arch-rival, the Swiss Re – without buying a domestic group.

Mr Jannott dismisses the theory, putting the decisiou in a broader business context. "We hope New Re will continue to look after its Swiss portfolio, but we don't expect a further expansion of our Swiss business." Rather than do everything under one roof, Munich Re reckons it will gain business by offering clients a diversified palette of reinsurance possibilities – albeit all within the group.

Thus "the purchase has nothing at all to do with the position in Switzerland," says Mr Jannott. "What interested us was that this company was in a country with



Horst Jannott, chief executive of Munich Re: fighting to keep the present rules

great solidity and stability." With customers reluctant to put too large a share of their reinsurance business with one company, Mr Jannott thinks buying a quality name in Switzerland should enable Munich Re group to increase its overall share of the world's reinsurance cake.

He will not say how much the company, which has annual gross premiums of about SFr230m and about half as much in net terms, cost. But New Re was a rarity which could not have come cheap. "We paid a fair, hut not an exaggerated price," he says, adding that there was virtually no goodwill bought in the transaction and New Re cost largely its effective net worth.

Looking ahead, some of Munich Re's challenges lie less on the business side than with possible legislative changes, notably those spurred by new accounting principles in the European Community. 1992 itself and the prospect of a liberalised European market in financial services causes no problems for Mr Jannott. "Nothing will change for the reinsurers. We are already in the freest world market there is."

He has little patience for those attacking German insurers for being cartelised and protective. Foreign insurers can always come along and set up branches, he notes, while people readily forget that a number of established German insurers are actually foreign-owned. "I've never had problems with UK insureres about the openness of our markets. The criticism of the German market only comes from the brokers, not from UK insurers."

But there are some tricky areas ahead. From 1991, the group will need to present a consolidated balance sheet and start equity-accounting for its *subsidiaries*. One broker has estimated its net earnings would be about 10 times higher if revised according to US accounting conventions.

"I've always avoided consolidation," says Mr Jannott, though the reasons are less clear. He implies that showing the group's full size could somehow handicap it competitively and says that giving figures for the parent company reveals a company hig enough to put any customer's mind at rest. There is also a passing reference to Germany's 63 per cent effective tax rate, probably the most potent force arguing for accounting understatement.

Nevertheless, Munich Re is already preparing to produce consolidated figures, although "we won't do it until it's necessary by law," he says.

The company still has time on its side when it comes to the planned new rules on asset valuation. Estimates about the actual size of its holdings run into billions of D-Marks. Some analysts believe, for example, that its stake in Allianz is actually on the books at virtually nil.

"We're fighting to keep the present rules," says Mr Jannott, who argues that using lowest possible value is a much stricter and more solid discipline than the market valuations used elsehwere. "We see our accounting system with pride as one of the toughest in the world. I don't want to see a softer system." Nevertheless, he readily concedes that the present system has a number of tax advantages.

Committed to maintaining a legacy

James Buchan interviews Robert Mercer, chairman of Goodyear, at his Akron, Ohio, headquarters

MORE THAN a year has passed since Mr Robert Mercer, chairman of Goodyear, tangled with Sir James Goldsmith. But Mr Mercer, who runs the world's largest tyre company from a panelled office in Akron, Ohio, is still angry and does not care who knows it.

Like many small-town American businessmen, Mr Mercer, 64, wears a tie-pin that looks as if it might be a local club badge. Closer inspection shows it has a pair of tiny golden balls attached. The tie-pin has nothing to do with the Elks or the Lions. It has to do with Goldsmith – Golden-balls to his enemies – and it expresses all Mr Mercer's anger and his fears for the company he has served 41 years.

Mr Mercer bought out the Sir James and his supporters but at the cost of Goodyear going deeply into debt, selling most of its non-tyre businesses and cutting back investment in tyres. The battle, he says, compromised a five-year effort to restore Goodyear's competitive edge through lavish investment in tyre manufacturing processes and a management reorganisation. "We should have earned *$100m more last year* instead of paying $1m a day to 17 banks round the world," Mr Mercer says, fuming.

But as Goodyear struggles to reduce its $3.5bn debt load and regain its poise, a new threat has appeared in the home market, where the company supplies 33 per cent of motor manufacturers' tyres and 27 per cent of store-bought tyres. In just a few months, a string of weak domestic competitors has vanished. Well-capitalised foreign companies have grabbed their plants and distribution capacity in a scrabble for share of the $14bn US market.

Last year, General Tire was sold to Continental of West Germany for $650m. Michelin, the world's second biggest tyre-maker, is increasing production at four US plants. Japan's Sumitomo is looking to expand from the two factories it bought from Dunlop. And Armstrong Tire has just been sold to Pirelli of Italy for $190m.

Uniroyal and B.F. Goodrich have been forced to combine their operations. The joint company, which is miserably unprofitable on sales of $2bn, is up for sale when and if it can be turned round. Wall Street is betting that Pirelli will buy that too. "I can't believe Armstrong really satisfies Pirelli's objective of becoming a major presence in the US," says Mr Don DeScenza of Nomura Securities.

Last month brought the biggest challenge yet to Goodyear since the company was caught napping by Michelin's radial tyres in the 1970s. On April 26, control of Firestone, a weak No. 2 in the US market and No. 6 in the world, passed to Bridgestone of Japan for $2.6bn – the largest single investment overseas Japanese industry has ever made.

The Bridgestone/Firestone combination will be a much stronger competitor than Firestone alone, which under Mr John Nevin's eight-year tenancy as chairman shed nearly half its business. The new company starts off with five US manufacturing plants, a distribution system of 1,500 company-operated stores, over 20 per cent of the market and a readiness to invest capital. It will have an edge in selling to "transplanted" Japanese auto plants in the US, which supply over 5 per cent of the current US vehicle market and are expanding production apace. "They're all part of Japan Incorporated," says Mr Mercer.

Outside the US, Goodyear's 21 per cent of the world market is also under threat. For years, motor manufacturers have been invading one another's home markets and traditional relationships with tyre suppliers have all but broken down. "This industry is fully global," Mr Mercer says. "The left front wheel of a Toyota doesn't know which country it is in."

Goodyear, which has learned to keep one eye always on Michelin, must now contend with a combined Bridgestone and Firestone in the tough West European and Far Eastern markets. Though the Michelin Man adorns office dart boards all over the Goodyear empire, Mr Mercer frets about Bridgestone. "Bridgestone will be more difficult," he says. "It has staying power and tenacity and the support of its government."

Robert Mercer: "I think we can move into Japan in a much larger way."

Tyres have been a competitive business for a long time. Every year, tyres are better made and last longer and the overall US market has grown only 2 per cent a year since 1985.

In original-equipment tyres supplied direct to motor manufacturers, US tyre makers have lost out as Detroit has given up *30 per cent of the new vehicle* market to imports. Because tyres are often too low-value and cumbersome to be worth shipping long distances, foreign tyre-makers have followed their motor manufacturers in setting up US-based plants. When Mr Nevin decided Firestone could not afford to upgrade a radial plant near Nashville and sold it to Bridgestone in 1983, the alarms rang at Goodyear. "We knew then there would be a shake-out in the industry," Mr Mercer says.

The original-equipment makers hardest hit have been the suppliers to General Motors, whose once commanding share of the vehicle market has fallen to 37 per cent. By a historical accident – the Du Pont family had stock in both companies – the chief supplier is Uniroyal, which still provides 33 per cent of GM's needs despite its ageing plants and heavy indebtedness. While GM's declining market share has hurt Uniroyal, the relationship has saved the company from failure and is the key attraction of the Uniroyal Goodrich joint venture to a buyer.

But GM's troubles were forcefully brought home to its suppliers last month when it sacked Firestone, its No. 3 supplier after Uniroyal and Goodyear. "Current business conditions do not allow us to continue with five suppliers," GM says. It is an unexpected setback for Bridgestone and a boost for Goodyear. Best of all, it provides a valuable breathing space for Uniroyal Goodrich and its new management under Mr Charles Ames, a professional company doctor and McKinsey man.

In the larger replacement-tyre market, the competition has been even more ferocious. With the independent tyre dealers at one another's throats, and South Korean imports flooding in, prices have fallen steadily. A radial that sold for $60 in 1983 could be had for $52 a few weeks ago. Men such as Mr Frank O'Keefe, who carved a niche for Armstrong Tire in the farm market and in private-brand sales through Sears Roebuck, appear relieved to have got out.

Most people in the US industry think the competition can only get worse. "There's not going to be an increase in the overall tyre business, because any slight rise in vehicle production will be cancelled out by better tyre mileage," says Mr Lloyd Stoyer, editor of Modern Tire Dealer, the industry's main trade publication in Akron. "You've got these people with lots of money – Continental, Sumitomo and Bridgestone – and they are going to be making strong efforts to build market share. Pirelli may buy Uniroyal Goodrich. There's going to be a real battle."

But it is not a battle that Goodyear is bound to lose. "It's the people below us who will have the problem," says Mr Mercer. "They'll get nothing out of our hide."

All over the industry, and on Wall Street, the company has passionate admirers and they tick off Goodyear's advantages: its sheer size, with $8.6bn in tire sales, its global presence with over 40 tire plants in 27 countries, and its strong reputation for quality. Bob Mercer, the son of a Ford salesman and a sometime industrial hose salesman himself, knows how to sell tyres, they say.

Mr Mercer has spent a fortune upgrading the US tyre manufacturing plants, investing $800m a year for five years. This investment may have hurt earnings and made the company vulnerable to raiders, but it has meant that Goodyear's plants at Lawton, Oklahoma, and Danville, Virginia are among the lowest-cost plants in the world.

A $380m retooling has created a plant at Tyler, Texas which competes directly with South Korean private-brand tyres. As well as throwing money at the plants, Mr Mercer has pushed more responsibility for making tyres on to the factory floor so that disputes, breakdowns and scrap have become less frequent.

"Goodyear has always aimed to get manufacturing costs down so it can compete with anybody and it's got more resources and better distribution than anybody," says Nomura's Mr DeScenza. "If any marginally profitable producer cuts prices to get some volume, Goodyear will go down itself and take the industry with it."

The company remains haunted by its slow response to Michelin's radial tyres back in the 1970s, which helped allow the French company to build up its current 13 per cent of the US original equipment market. Last year, Goodyear spent $270m on research and development in tyres, streets ahead of its rivals.

Overseas, Goodyear showed it could compete aggressively with Michelin in Europe and against the Japanese and South Korean makers in the Far East when the dollar exchange rate was nowhere near as favourable as now. Goodyear is negotiating in Seoul to build a $100m plant to serve Hyundai and the rest of the South Korean original equipment market – and, eventually, Japan. Plans for a technical and research centre in Japan, shelved because of the Goldsmith raid, are being examined again. "I think we can move into Japan in a much larger way," Mr Mercer says.

Above all Bob Mercer has the will to stay on top. "John Nevin was hired to raise the share price and earnings per share at Firestone and promised $6m if he could accomplish it," he says. "He succeeded even if he took Firestone from No. 2 in the world to No. 6. I don't disparage him. He fulfilled his job description.

"My job description is to increase our leadership position. It is my legacy and I am committed to maintain it."

The quick march to diversification

David Goodhart talks to Dieter Spethmann, chairman of Thyssen

EVER SINCE the great German steel families of the late 19th century began to pursue less worldly affairs and handed over their companies in professional managers, the image of the average German steel boss has been of a drab, hard-working, bureaucrat. But the only grey thing about Dieter Spethmann, the current chairman of Thyssen, is his hair.

He is a handsome, burly, 62-year-old, with a twinkle in his eye and something of the look of Willy Brandt. He also provides an eloquent explanation of what to many observers – at least those watching through Thatcher/Reagan built spectacles – looks like the puzzling complacency of the German business class.

He does not, of course, defend the infamous inflexibility of the West German labour market or the feeble underdevelopment of the country's service industries. However when questioned about the possible lack of dynamism in German industry, the failure to shift strength into the new information-based industries and the gloomy outlook for exports given the country's rising cost base – the journalistic advantages of riling an interviewee are immediately evident.

He starts off with Thyssen itself. Undynamic declining steel giant, is it? "Well, did you realise that when I took over this firm 15 years ago it was a pure steel company with sales of about DM 11bn. Today the sales are three times that and less than one third comes from steel."

This is not quite true. Although the recent diversification effort of the German steel producers is not widely appreciated in the rest of the world, steel and special steel actually accounted for only about 50 per cent of Thyssen sales even back in 1975. Today steel takes its place alongside capital goods and systems, and trade and services as one of the three legs of the business.

In any case, the new Thyssen is a large and *successfully diversified steel company* (1987 sales DM 33bn, current market capitalisation DM 4.3bn) or, as the new remarkably uncatchy company slogan insists, a "multi-purpose producer of materials, components and systems"; it is *not* West German industry.

"No, of course not, but Germany is exporting about 35 per cent of GNP, which means well over half of industrial production, and if we can still manage that with the dollar at its current levels we must be doing something right."

The explanation for this continuing success comes in two parts. The first part is that Germany has established a comparative advantage not just in particular products and industries but in the very business of exporting itself.

Spethmann again quotes from the Thyssen experience. In 1978 as part of the quick march to diversification Thyssen acquired Budd, a US automotive components company, which after causing severe headaches in the early 1980s (and nearly toppling Spethmann himself) has now justified the high price paid for it.

"The average US businessman thinks 'but I'm not selling in Kansas why should I try in sell in Tokyo?', whereas in Germany we have had to export in acquire the raw materials we don't have and the habit has caught on. Budd, for example, did little exporting before we acquired it and now it is selling very profitably in Germany and Japan."

The second part of the explanation for Germany's continued success is that the country has been clever or lucky enough to specialise more than its competitors in fields where the competition is severely limited. "It is quite simple," says Spethmann, "you achieve better margins where there is limited competition. Where is that? In highly sophisticated products. And that does not mean so-called high-tech products like chips, it means systems. It means designer capital goods."

This is a familiar argument to explain the success of Germany's medium-sized, usually family-controlled, mechanical engineering companies. Spethmann implies that the giant former steel and engineering groups like Thyssen, Kloeckner and Krupp have been learning the trick too.

"To just take the example of something we are looking at now, the door of the average passenger car has a surprisingly high degree of welding work in it. We have worked out a way of drastically cutting that, through the application of laser technology, which could revolutionise the automotive industry around the world."

But how can industrial giants like Thyssen hope to compete against the nimble *mittelstand* of family-owned companies? By imitating them. Or at least by applying the decentralist, profit-centre framework in the hope of recreating the psychological conditions of small companies.

Spethmann may have an over-sanguine view of West German prospects and base his arguments too narrowly on the experience of his own company, but he has a point in challenging the old distinction between high growth high-tech and low growth "engineering". "Chips are just commodity products, but there is not a single industrial process which is not accessible to revolutionary and highly profitable restructuring – that is my credo."

Another part of his credo is drawn from the currently unfashionable English Liberal peer Lord Beveridge. "I was a young student in Kiel in 1945 when British professors like Lord Beveridge brought us the idea of full employment in a free society."

However he is far less coherent when talking about tackling unemployment than he is about new production systems. Indeed having ruled out a revival of US-style service industries – "the Germans have forgotten how to *do* this"– his main hope for a fall in the jobless lies with the shrinking population.

He also implies that the continuing strength of the German labour movement – and its relative success in pressing for shorter working hours – has benefitted German industry, even at the expense of higher unemployment. "Our high cost base has forced us to develop productivity gains through new processes, which has kept us at the forefront of innovation."

In other words the new processes may cut out labour but their products are so successful in export markets that the country can afford to keep its unemployed more comfortably than almost any other nation on earth.

Things could, none the less, be better. Spethmann is a member of the Christian Democratic party, which dominates the conservative coalition government in Bonn. And, like so many other CDU-supporting industrialists, he expresses an odd combination of disappointment in the failure (to date) of the government to implement the business agenda, while also maintaining an underlying optimism in the health of the corporate sector.

Despite relatively little help from Bonn with either subsidies or pro-business legislation, Thyssen has weathered the 15-year storm of steel rationalisation better than most and still boasts the lowest production costs in the sector. Perhaps, therefore, it is unwittingly making the case for the Government's inaction.

JOBS

Test of chiefs' words about their 'key asset'

BY MICHAEL DIXON

WHETHER the professional gamblers have caught onto it, I don't know. But there would seem to be an increasingly safe way of making easy money. It is by taking bets that if you ask top managers a particular question, they will give you a particular answer.

The question is: "What is your organisation's most important asset?" To which it is estimated that about three in every fiva company chiefs these days will straightway reply: "Our people".

To what extent they mean it, however, is open to doubt. For example, one long experienced observer of management who suspects there is rarely much heart behind the pronouncement is the American psychologist Robert Blake.

"It'a so much the standard response of top executives in the States that you can bank on hearing it even from chiefs who came up through engineering," he told me. "They say: 'Yes sir, our key resource is people.... Now come and look at our new robot production line, it cost us a bomb.'"

Accordingly, in Dr Blaka's view, the wisest way of assessing senior managers' true attitudes in such matters is to judge not by their words, but by their deeds. And on that criterion, the Jobs column is sad to say that US chiefs' reluctance to put their money where their mouths are appears to be largely shared by their counterparts in Europe.

HOW DEPARTMENTAL DIRECTORS' PECKING ORDERS DIFFER BETWEEN COUNTRIES

		United Kingdom	Austria	Belgium	France	West Germany	Greece	Italy	Netherlands	Portugal	Spain	Sweden	Switzerland
Average pay of chief executives*: –		£63,620	£75,209	£61,426	£69,992	£88,871	£21,292	£77,001	£61,994	£19,290	£56,078	£52,926	£102,825
		%	%	%	%	%	%	%	%	%	%	%	%
Departmental directors ranked by their average pay as a percentage of chief executives' average pay	Marketing	67	Mktg 60	Fnce 68	Sals 66	Fnce 64	Mktg 67	Fnce 64	Pdcn 69	Sals 73	Mktg 69	Mktg 72	Sals 67
	Research	64	Eng 58	Sals 68	Mktg 64	Sals 61	Sals 67	Sals 63	Sals 68	Fnce 72	Fnce 68	Adm 67	Mktg 63
	Sales	61	Pers 55	Mktg 67	Fnce 62	Mktg 59	Fnce 66	Adm 62	Fnce 67	Mktg 72	Sals 68	Eng 65	Fnce 58
	Finance	58	Sals 55	Pdcn 65	Rsch 61	Pdcn 59	Pdcn 65	Mktg 61	Rsch 66	Pers 72	Pdcn 67	Sals 64	Eng 57
	Admin.	57	Fnce 52	Rsch 64	Pdcn 60	Rsch 57	Adm 63	Pdcn 61	Eng 65	Pdcn 69	Adm 66	Fnce 61	Pdcn 57
	Production	56	Pdcn 52	Adm 63	Adm 58	Eng 56	Pers 49	Rsch 59	Mktg 64	Adm 67	Eng 66	Pdcn 60	Adm 54
	Personnel	51		Eng 62	Eng 56	Adm 55	Eng 47	Eng 58	Adm 62	Rsch 67	Rsch 64	Pers 55	Pers 54
	Engineering	50		Pers 61	Pers 55	Pers 52		Pers 58	Pers 60	Eng 62	Pers 61		
	All depts.	58	All 55	All 65	All 60	All 58	All 61	All 61	All 65	All 69	All 66	All 63	All 59

* In sterling at exchange rates prevailing at close of London markets on April 27.

The evidence lies in the table above which is drawn from the same source as my list last week of the 12 nations heading the European top-management pay league. The source is the survey made at the start of this year by Executive Compensation Service, part of the international Wyatt consultancy group. Anyone who wants the full report, which covers 976 employing concerns in 17 countries, should contact Paul Curley of ECS at 18 Avenue Roger Vandendriessche (Box 3), 1150 Brussels, Belgium; telephone (02) 771 99 10, fax (02) 762 37 43.

Today's table takes another 12 of the countries and shows the "importance" their companies typically place on directors in charge of different specialisms. In line with Dr Blake'a advice to judge by deeds, not words, the measure of importance is cash. The various sets of departmental directors are ranked by their average total rewards received in money - salaries plus bonuses and so on - stated as a percentage of the average total money rewards of chief executives in the sama country. The chiefa' rewards, printed above the departmental rankings, are in sterling at the London exchange rates when markets closed on April 27.

In view of of tha supreme regard top managements tend to profess for their human assets, let's focus on the positions in the rankings occupied by personnel directors.

Admittedly, the value which a company sets on its people need not be the same as the value it sets on the head of its personnel department. (The difference was depicted by an American cartoon during the Vietnam war, which showed a pacifist-looking woman buttonholing a US General who was saying: "Of course we use anti-personnel bombs... But only against personnel; never against people.")

Even so, I feel sure there must be some significant connection between the two valuations. And, as the table shows, it is only in Austria and Portugal that the personnel directors come in the upper half of the importance league. By contrast, they are bottom of the heap in six of the countries, bottom-equal in another two, and next to bottom in two more – both of which prefer them solely to engineers. Indeed, averaged across all dozen of the countries listed, the board-room pecking-order is:

Marketing	65.4%
Sales	65.1%
Finance	63.3%
Research	62.8%
Production	61.7%
Administration	61.3%
Engineering	58.5%
Personnel	56.9%

All of which implies a certain lesson for top executives who want to be taken seriously when they declare that their most important resource is people. Before making such declarations in future, they should read, mark and inwardly digest Ecclesiastes 5:5: "Better ia it that thou shouldst not vow, than that thou shouldst vow and not pay."

Consultants

AS IT happens, headhunter Garry Long is offering a couple of jobs which might suit company personnel heads who feel undervalued. The posts are based in London with the consultancy arms of big accountancy firms.

Since Mr Long may not name his clients, he promises to abide by requests not to be identified to the employer at this stage. The same goes for his colleague to be mentioned later.

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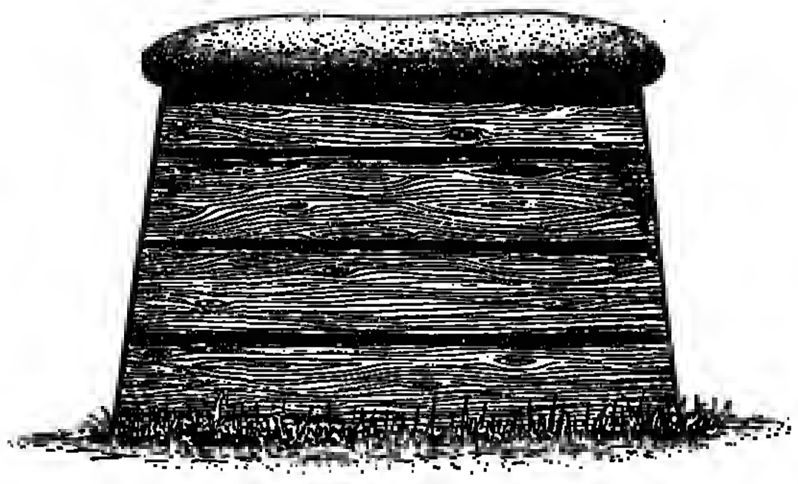

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ARTS

Montag aus Licht/La Scala, Milan

David Murray

Or "Monday," from Karlheinz Stockhausen's burgeoning opera-cycle "Light." On Saturday it had its première in Milan, like "Thursday" and "Saturday" before it (respectively on a Sunday in 1981 and a Friday in 1984). "Tuesday" is reportedly well in hand; so far we have seen only "Thursday" in London.

Many readers will already know something about this extraordinary project, which Stockhausen – 60 this August – intends to complete around the turn of the century. (Presumably with "Sunday," which is to round off the symbolic week with the "mystical union" of two of his three central figures, Eva/Eve and Michael; Lucifer, the third, has already had his Saturnine day.) They won't be surprised to learn that the *Montag* performance took a very long time – four-and-a-half hours, not counting the 33-minute prelude for taped multiple basset-horns in the foyer nor the 28-minute postlude for piccolo *et al.*; nor that the applause at midnight, partly fervent and partly reverential, was enlivened by some committed booing.

I should say at once that Stockhausen's uncompromisingly lunatic vision (for he celebrates the Moon's day with watery birth-rituals and a chartless sea of private references) has been realised on stage by the producer Michael Bogdanov and designers Chris Dyer and Mark Thompson with great credit (their names crop up, indeed, in the sung text). The Master's prescriptions are honoured in fine detail, with style and even theatrical conviction – granted that some exceedingly protracted scenes resist any merely visual jazzing-up. The proportions of the score have been arcanely pre-determined, after all, in accordance with the musical "super-formula" of the whole cycle, a higher product of the Eva, Michael and Lucifer "formulas."

The piece is visually dominated by the huge, revolving statue of a female nude: Eva, moon-goddess, Ur-mother. From it are born seven animal-headed children and seven greybeard dwarfs (yes!) in Act 1, re-born in Act 2 as seven boys matched to the days of the mystical week. The accompanying first-act rituals, with a cheerful congratulatory vaudeville for three sailors, sardonic comments by Lucifer (Nicholas Isherwood) and a grand final ballet of prams, are followed at the re-birth by a procession of candle-bearing ladies dressed as lilies, and by the infant-seductive, probably criminal irruption of "Coeur de basset" – yet another member of Stockhausen's ever-extending family to get a custom-designed role, Suzanne Stephens with her virtuoso basset-horn.

"Coeur's" incestuous child-luring is intensified by redoubled clones: two more sexy basset-ladies, and one who sings. In Act 3 the singing one, Kathinka Pasveer, reappears with her flute as a *formidable competitor*; she challenges Stephens in a fraught erotic duet and then, as a Pied Piperine, leads the raptly carolling children up and away to lofty mysteries. As their voices fade, great seabirds hover (visibly and audibly) over the stage. One would probably be anathematised for remarking that it's very like the Act 1 close of Henze's *We Come to the River*.

Even on the most generous mythical level, *Montag* is a mare's-nest of loose Jungian ends. (Perhaps "Tuesday" will reveal whether Seduction by the Mother is to be regarded as spiritually essential.) On the other hand the music has its own potent logic, quite transparently displayed. Stockhausen's earlier complexity used to give no quarter, but his more recent inventions fall gratefully and lucidly upon the ear. The musical diction of his children's carols is in the same poignant line as Peter Maxwell Davies's. "Eva" is lent mellifluous voice by a soprano trio (Annette Meriweather, Donna Sarley and Jana Mrazova) like the Supremes, and the later music for Miles. Stephens and Pasveer makes exciting improvisation-room for their astonishing powers – ultimately controlled by the Master through his on-the-spot electronic *Klangregie*.

The *Donnerstag* première ran into strike-problems with the Scala chorus, which may explain why there are no Italian performers in the new *Montag* except the energetic but voiceless mime-troupe of proud mothers. Most of the performance was perfected in prior concert-versions; in Act 1 we hear Cologne musicians conducted by Peter Eötvös on tape, and thereafter the singers are supported only by electronic keyboards (one of them manned by a Stockhausen son) and bursts of *musique concrète*. The children, disconcertingly gifted and natural, are all from Budapest, and the keen adult chorus (trained by Jan Pasveer) is Dutch, perfectly apt for the chirpy multilingual word-games of Stockhausen's text.

Certainly it's a megalomaniac farrago, but a farrago by the overweening musical original of our time. Though his super-serialising method – not only with the notes but with character-appearances, lighting-hues and probably every other deliminable aspect of the work in progress – may be crazy, even at this not-quite-halfway point he seems palpably to be reaching into deep new territory with it. It's too soon to explain that away: it really seems possible that when his rich material (for it *is* that) has been fully developed it may carry long-range echoes and pre-echoes on a Wagnerian scale, enough even to justify his naive dramaturgy. We haven't had a Wagner since Wagner, and Stockhausen may at the very least be gesturing toward a new Wagnerian form: nothing less than something dauntingly new – and therefore "unsatisfactory" – could make a real neo-Wagnerian challenge.

Act 1: Eva the Moon goddess, surrounded by the ballet of the prams

Television/Christopher Dunkley

T' Troubles, fact & fiction

Amid the avalanche of humbug heaped upon television following the programmes about the killings in Gibraltar (yes, the world is a better place without those terrorists) one nugget stands out above the rest. It is the Government's pretence that, while hearsay evidence delivered by a minister in the House of Commons – and reported around the world – is legitimate and acceptable, and accounts of the incident published in newspapers are legitimate and acceptable, the broadcasting of accounts on television is illegitimate, unacceptable and a hideous danger to a fair trial . . . even though nobody is holding a trial, and the Government is resisting with remarkable vigour the efforts to organise a proper tribunal of inquiry.

On Wednesday last week this column said of the BBC Chairman, Director-General and Deputy D-G that they "might yet prove less biddable than some seem to think, but we shall see." On Thursday we saw. Despite public and private pressure from the Government, and in the face of the shameful onslaught on broadcasters from certain parts of the Press, they stood firm on freedom of expression and broadcast the BBC Northern Ireland current affairs programme, *Spotlight*, dealing with the killings. It was a remarkably wide-ranging and informative report, including interviews with Enoch Powell and an Amnesty International spokesman as well as witnesses of the shootings. Given the wide public interest it is a pity it was not a national screening. However, the BBC's top brass quickly reaffirmed their independence by approving a transmission date for Charles Wood's powerful play about one soldier's experience in the Falklands, *Tumbledown*, which will be nationally networked at the end of May.

*

It is hard to be sure why *Troubles* never quite took off and flew. This ITV adaptation of J.G.Farrell's novel, set in a vast Anglo-Irish hotel in 1919, was long, leisurely, weird, and occasionally very beautiful to look at. It had many of the other attributes of previous television triumphs, too: money had clearly been spent, Charles Sturridge (who directed most of *Brideshead Revisited* did the adaptation, Christopher Morahan directed, and a splendid cast was headed by Ian Richardson and Ian Charleson. Yet it remained obstinately grounded.

I have not read the book and cannot be sure, but suspect the reason is what might be called The Dostoevsky Dilemma: the fact that, the greater the work of literature, the harder it is to transfer its essential qualities to television. The reason is simple. Great literature is primarily concerned not with physical landscape or objects but with the internal landscape of the mind: thought. The television version of *Brideshead* overcame this by repeated use of an old and familiar film device: voice over. We *heard* what Charles Ryder was thinking. Why Sturridge did not exploit precisely the same technique in *Troubles* is a mystery – unless I am wrong in my assumption about Farrell's book.

*

Among all those who are very young, and many of those who are very old, age is a matter of such fundamental significance that it makes sense to create television programmes specially for them. For other age groups the idea is a nonsense and the perpetual tortuous attempts to make "yoof" series are a waste of time and resources. The belief that those in the 16 to 24 age group have so much in common that

As the BBC broadcast its report on the Gibraltar killings, ITV's adaptation of J.G. Farrell's novel never quite took off

they will all appreciate the same programmes is a hangover from the sixties when, for a brief period, there did seem to be some truth in the notion. Before the sixties, and since, no normal person would believe for a moment that all 20 year olds had anything more in common than 30 or 40 year olds.

The trouble seems obvious: television's middle management is now occupied by sixties people whose own formative experiences convinced them that all teenagers have the same tastes. Even in the sixties this was untrue, but at that time one set of tastes was so predominant that it seemed true. Today it is quite clearly wrong, yet the sixties folk are in charge, and the mistake they are making is quite important. Instead of catering for people of all ages who like rock music, or folk music, or ancient series from children's TV, or way-out comedy, they keep on aiming for a commonality of taste/age which simply does not exist. Consequently everybody with special interests, which is to say every one of us, suffers.

Because the sixties crowd harbour the twin beliefs "Yoof equals popular music, popular music equals rock and roll," the entire television audience is deprived of its fair share of folk music, trad jazz, swing, Gilbert and Sullivan, Broadway musicals, and so on. The only exception, as was clear in the first edition of BBC2's new twice weekly "yoof" slot, *Def II*, is the current craze for "rap," a form so limited and monotonous that all practitioners sound identical.

*

Anybody who has so far missed all four of the Alan Bennet monologues *Talking Heads* on BBC1 on Tuesday nights should start watching. They are not glamorously produced, nor very long or involved, and not very much to look at. There is only one person in each, that person speaks directly to camera, and the suggestion that they would make good radio is hard to deny. Yet in 12 months television you will see little to match the story telling power of these seemingly simple tales. They are the best things that Bennett has ever done on television, and anyone who remembers *Sunset Across The Bay* will know that that is saying something. My favourite character so far is Maggie Smith's sad yet superbly defiant and funny alcoholic vicar's wife, last week.

*

The little girl who told the librarian "This book tells me more about penguins than I want to know" had a good point. Television is now telling us more about a lot of things than we want to know. According to television it is dangerous to eat almost anything: bacon and eggs, salt and sugar, cakes and ale. It is dangerous to step outside the house (muggers, rapists), and fatal to stay in (ambient nuclear radiation). All forms of travel are deeply perilous: flying (hijackers), driving (drunks), tube trains ("steaming" by teenage gangs). All these frightening risks have been detailed in recent programmes.

So have the dangers of cancer, stroke, dementia, AIDS and a dozen other nasty medical conditions. Television tells us that it can be fatal to work down the mines, on a trawler, in waste disposal, on a farm (insecticides and agricultural accidents). We are in danger of drowning when the polar ice caps melt thanks to the greenhouse effect caused by all the aerosols we use and of freezing to death as the polar ice caps extend thanks to the new ice age.

If by some remote chance we do not all die in a nuclear holocaust/international pandemic/unprecedented crimewave, then we shall suffer horribly through a neglected old age, abandoned by our families, ignored by the state, and tortured by the agonies of bad diet, dangerous travel, etc. All this is "true," yet collectively it bears little relationship to reality. Look around and what do you see? People living longer than ever in the safest society history has ever seen; a higher average standard of living than ever before; more material comforts than any previous generation. Yet television (with a little help from newspapers and radio) has us all worried to death.

Stars in the Morning Sky/Glasgow Mayfest

Michael Coveney

As surely as every dog must have his day, so every festival must have its triumph. The Glasgow Mayfest is now ablaze with *Stars in the Morning Sky*, a new Soviet play performed by the Maly Theatre of Leningrad making their debut in the West at the New Athenaeum Theatre of the Royal Scottish Academy of Music and Dance in Renfrew Street.

Standing ovations are becoming dangerously commonplace in Glasgow these days, but there was no other possible response on Tuesday night. Alexander Galin's play is a new *Lower Depths* about the Moscow prostitutes moved on by the authorities just before the Olympic Games of 1980. We assume that lots of things continue to be swept under the carpet in Russia. Here, at least, a little bit of the carpet is turned back. Director Lev Dodin declares in the programme that "our presence here is due to the winds of change that have brought a new freedom."

This cultural symptom of *glasnost* would be interesting enough in itself. But the production goes way beyond that. It is a theatrical performance of sensational histrionic intensity, deeply moving, often funny, boldly and brilliantly orchestrated, sardonically punctuated with the brassy Socialist anthems of a suite composed in the 1970s by Georgi Sviridov and the raucous, fervent ruminations of the late Vladimir Vysotsky (Lyubimov's unforgettable Hamlet with a voice like a gravel mixer and himself a beacon of pre-glasnost radicalism).

The women have been evicted to some dilapidated barracks in a mental asylum. There, among peeling walls and rickety metal bed-frames, the "Olympic girls" *consider their lot. But this is no* placidly poetic chat-play. There is strong dramatic inter-action in the love affair of the drifting circus girl and the escaped patient from the new asylum nearby, and in the immediate demands of some offstage *clients* which have hideously violent repercussions. All the time, the Olympic flame comes closer, willing the girls to a rooftop demonstration.

The prostitutes have a strong sense of being members of an under-class. "What can women hope for in these days of change?" one asks. Another suggests that "the only chains we have to lose are our necklaces." But there is tenderness and eroticism in their lives, too, and these elements are relentlessly transmitted in scenes of great power and uncommon beauty.

Valentina (Galina Filimonova) is the caretaker of the asylum. Her son, Nikolai (Sergei Kozyrev), is one of the soldiers charged with clearing the streets, but he has fallen in love with one of the urchins, 15-year old Maria (*Natalya Akimova*). This triangular situation is counterpointed with the boozed, maudlin lyricism of Anna (Tatiana Shestakova, the play's co-director) and the limber voluptuousness of the circus girl from the Crimean coast, Lara (Irene Seleznyova).

The production caused uproar in Moscow when first given last July. Much of this surrounded the first instance of nudity on the Russian stage. The force of the occasion, rising to one of the most tremendous crescendos I have experienced in a theatre, goes quite beyond such minor details. The nudity is indeed a valid and poignant factor in the play's physical expression. But, above all, this is theatre of blow-torch intensity, of fire, pain, anger and animal high spirits among the Cinderellas who will *never go to the ball*. The play tells you much about Russia, but even more about the world.

This wonderful company is in Glasgow until Saturday and comes to the Riverside Studios in *London for ten days on May 18.* If you book for no other play this year, book for this one. The simultaneous translation is tactfully interjected, and the programme contains an excellent synopsis.

Emerald City/Lyric

Martin Hoyle

This emerald city of Oz is Sydney, "a city of sub-tropical abundance" to glamour-starved Brisbanites, a competitive jungle where "people devote a lifetime to getting themselves a water frontage," or, more metaphorically, where the search for the pot of gold reveals only the demons within themselves.

David Williamson writes of the film world from an Australian stance with the same assurance that Charles Wood and Peter Nichols have displayed from our own. The most successful current Antipodean playwright gives us a cynical little fable about screen-writer Colin losing his idealism and deciding to be "awesomely powerful and fabulously rich." In that he is aided by the monstrously untalented Mike whose gift of the gab, wheeler-dealing and obsession with what the American market wants propel him to power on other people's backs.

The play's ironic tone – which extends to Colin's publisher wife modifying her dislike of shallow "glitter, image and style" to the extent of relishing an all-expenses stay in London with a Booker candidate, not to mention a casual adulterous fling – is slightly undermined by an amiable soft centre. There is no bitterness, no corrosive satirical acid, in Richard Wherrett's production for the Sydney Theatre Company; and such positive elements in the plot as a quest for Australian cultural identity come over as correspondingly lightweight.

One of the problems is Max Cullen's Mike. The actor is vividly remembered for his alcoholic, shambling journalist still fumbling after integrity in Mr Williamson's *Sons of Cain*, in London two years ago. The stage persona has changed little – less suitable for a ruthless thruster – and Mr Cullen's medium seems to be television, to judge from his physical stiffness and occasional verbal indistinctness. The personality is considerable and comic, but here miscast.

There are some funny lines and decent performances: Garry McDonald as Colin and Robyn Nevin as the wife who speaks much of integrity but enjoys the fleshpots as much as her star-struck husband deal with the slightly over-self-analytic articulateness which Australian literati improbably combine with the use of tea-bags. As nubility personified, a sort of Helen of Troy to Colin's Faust (no escaping him in the theatre at the moment), Andrea Moor is a corker and, more important, acts with attack and style. The author's obvious knowledge of the world of agents, producers and money-men is tantalisingly apparent; would that he had got his satirical knife well and truly stuck in.

The Magic Flute/Coliseum

Richard Fairman

There can have been few more judicious attempts to set the scales in equilibrium: innovation and tradition, reality and fantasy, lofty wisdom and low humour. The elements of English National Opera's recent new production of *The Magic Flute* have been meticulously weighed and there must be a danger that any change to the cast might upset so delicate a balance. At this performance new singers took over in three of the leading roles, but so far but the dramatic poise happily remains.

After a Papageno who came from Yorkshire in the original cast, Nicholas Folwell has now turned him into a Cockney, an East End trader with a quick eye for a commercial deal. (Unfortunately we never find out whether Sarastro has awarded him the franchise for bird-catching in his catchment area.) The accent comes and goes – on for the spoken dialogue, off for the music – but the singing is clean and true, and his words are remarkably clear.

Indeed, a special point seems to have been made of enunciation all round and the new translation (witty, everyday parlance, easy on the ear) comes across with what can only be described as "Sadler's Wells" – like clarity. The neat clipping of consonants and relishing of words gave the Sarastro of John Connell its own distinction, even if the voice is not sufficiently imposing or resonant; and the Scots accent of Janis Kelly's Papagena is a real tonic.

In the pit James Holmes provided helpful support, but the musical side of the performance generally does not evince a strong personality. He also needs more rehearsals: awkward corners of the score – the opening brass fanfares, Tamino's recitative before the temple – invariably failed the test. This is a production which memorably strives to bring order out of chaos, and it is unsettling to hear the musicians threatening to do the opposite.

Saleroom/Antony Thorncroft

Glyndebourne mementoes

Sir Osbert Lancaster's original watercolour drawing for the 1959 Glyndebourne opera programme, showing the audience taking its seats, sold for £12,650 at Christie's yesterday. Among the recognisable faces are those of Lord Goodman, and Moran Caplat, who during his many years as general administrator at the Festival assembled an unrivalled collection of stage designs, sketches, drawings and costumes relating to the productions. These were sold for £138,265, not surprisingly well above estimate.

For example the Lancaster sketch was estimated at up to £4,000. It was bought by Glyndebourne Opera, which in all bought fourteen items for £29,974. Another big buyer was the London book dealer Goldschmidt, who secured 22 lots. Leggatts, on behalf of the National Portrait Gallery, paid £143 for a cartoon by Harold Prince of the conductor Raymond Leppard.

The other top prices were the £8,800 for David Hockney's design for the 1975 programme, featuring "The Rakes Progress;" Lancaster's design for the 1960 programme showing the audience on the lawn; and £6,600 for a John Piper design for a street scene from the 1951 production of "Don Giovanni."

Across at Sotheby's London dealers were bidding energetically for Chinese export porcelain. Pelham Galleries bought a large, 28in high, "famille rose" Chinoiserie baluster jar and cover, Yongzheng/early Qianlong period, for £34,100, almost twice the estimate; Vandekar acquired a 74 piece Qianlong "famille rose" dinner service for £23,000 and Heirloom and Howard paid £20,900 for an armorial part dinner service, Qianlong, with the arms of Vaughan, a Jamaican planter, impaling Gallowell, from a Boston, Mass, family.

A "compaignie-des-Indes" armorial figure of Budai, Qianlong, trebled its forecast to a private buyer in an auction which totalled £435,490 with a modest 10 per cent unsold.

Both salerooms had records for silver in Geneva. At Christie's a pair of Louis XIV surtouts de table, two dishes 50 cm long which were probably used as fruit bowls, sold for £666,666, an auction record for 17th century French silver. They were made in Lille around 1695 by Elie Pacot. Sotheby's managed a record for an item of Swiss silver when a price of £192,386 was paid for a parcel gilt cup and cover, shaped as a globe and supported by a wooden Hercules, made by Hans Rudolph Ulrich in Zurich around 1650.

In the European ceramics a rare Meissen figure of a cat, modelled by J.J.Kandler in the late 1730s sold for £21,749, three times estimate, to a private English collector, while another Kandler model, of the court jester Joseph Frohlich, realised £17,566. The sale did well, totalling £300,011, with only 6.89 per cent unsold.

Arts guide

May 5-12

Theatre

LONDON

Cat on a Hot Tin Roof (Lyttelton). Ian Charleson and Lindsay Duncan lead this white-hot National Theatre revival of Tennessee Williams' play directed by Howard Davies. Eric Porter, absent from the stage for 12 years, is an electrifying Big Daddy. (928 2252)

The Common Pursuit (Phoenix). Second London chance for flawed Simon Gray comedy about Cambridge graduates in love and publishing. Author directs good young cast of post-Python comedians including Rik Mayall and Stephen Fry. (836 2294, CC 240 9661)

Easy Virtue (Garrick). Transfer of King's Head revival of early Noel Coward, same period but lesser vintage than Hay Fever, but worth seeing. (379 6107)

Bloody Poetry (Royal Court). Howard Brenton season inaugurated with this fine play about Byron and Shelley, a fierce meditation on the mixed gift in exile. Sian Thomas a notable Mary Shelley. Max Stafford-Clark directs. (730 1745)

A Touch of the Poet (Comedy). Vanessa Redgrave and Timothy Dalton in gentle but fascinating O'Neill piece set in the aftermath of the European republican upheavals. Dalton is Con Melody, a Byronic wreck pipe-dreaming in the bar, Redgrave his loyal but defeated spouse. (930 2578, CC 839 1438)

South Pacific (Prince of Wales). Average, traditional revival of the great Rodgers and Hammerstein musical, Gemma Craven failing to wash Emile Belcourt out of her hair.

Shirley Valentine (Vaudeville). Pauline Collins in fine and funny monodrama by Willy Russell of liberation for a Liverpool housewife on Corfu. Shades of Ibsen's Nora and Beckett's Winnie, with jokes. (836 9987, CC 379 4444). Ends April 30.

The Phantom of the Opera (Her Majesty's). Spectacular, emotionally scorching new musical by Andrew Lloyd Webber. (839 2244, CC 379 6131/240 7200).

Follies (Shaftesbury). Stunning revival, directed by Mike Ockrent and designed by Maria Bjornson, of Sondheim's 1971 musical in which poisoned marriages surely underlie an old burlesque reunion in a doomed theatre. (379 5399).

Serious Money (Wyndham's). Transfer from Royal Court of Caryl Churchill's slick City of London comedy for champagne-swilling yuppies: how the Big Bang led to class conflict and barrow-boy dealings on the Stock Exchange. (836 3028, CC 379 6565). Ends April 30.

Back with a Vengeance (Strand). Barry Humphries, indisputably the outstanding vaudevillian of the age, has extended his triumphant London season to July 9. Dame Edna and Sir Les Patterson touches new heights of degradation. (836 2660/4143)

Hapgood (Aldwych). New Tom Stoppard mixes espionage, romance and higher physics in a splendidly taut and clever entertainment. Felicity Kendal is the eponymous intelligence agent, Roger Rees and Nigel Hawthorne in elegant support. Double meanings and double identities abound. (836 6404, CC 379 6233).

NEW YORK

Fences (46th Street). August Wilson hit a home-run, this year's Pulitzer Prize, with the powerful tale of an old baseball player raising a family in the 1950s, trying to improve their lot but dogged by his own failings. (221 1211).

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's poetry set to trendy music is visually startling and choreographically feline. (239 6262).

A Chorus Line (Shubert). The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

Les Misérables (Broadway). Led by Colm Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama, if not strict adherence to its source. (239 6200).

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise this American incarnation; the skaters do not have to go round the whole theatre but get good exercise to the spruced-up stage with new bridges and ramps. (586 6510).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated lesions in a stage full of characters. But it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor, preferably British. (947 0033).

WASHINGTON

The Search for Signs of Intelligent Life in the Universe (Eisenhower). Lily Tomlin repeats her Tony-award winning solo performance of the zany people who inhabit her funny and strange imagination. One major segment explores the women's movement over the past decade. Ends June 26. (254 3670)

The Mystery of Edwin Drood (Kennedy Centre Opera House). The Broadway hit musical based on Dickens' unfinished novel features the music of Rupert Holmes for which the pop composer won a Tony. Ends May 1. (254 3770).

CHICAGO

International Theatre Festival: the American debut of the English Shakespeare Company performing the seven Wars of the Roses plays, beginning with Richard II, highlights the month-long schedule of 20 productions from 12 companies. Ends May 29. (644 3370).

TOKYO

Yume no Yuminsha in "Hanshin" Theatre Apple, Shinjuku. A recent survey indicated that Yume no Yuminsha is the most popular theatre group among today's young generation in Japan. Hideki Noda's productions are complex fantasies with a strong vein of surrealist humour. Noda himself is a high-energy comic performer of great charm and the entire company are skilled in song, dance and acrobatics. Total Theatre at its most exuberant. Ends May 15.

Kabuki (Kabuki-za). (541 3131) This month's programme features two of the most spectacular works in the kabuki repertoire. At 11am, Imoseyama Onna Teikin, has a first act consisting of two plays performed simultaneously. It makes use of two hanamichi (the raised platform which extends into the auditorium) and two sets of singers. Ends May 27.

Bunraku, National Theatre (265 7411). The puppet theatre is one of Japan's most refined art forms. Each doll has three operators who remain in sight of the audience throughout the performance, but their presence is soon forgotten, as the narrator at the side of the stage unfolds the story to a musical accompaniment. Ends May 22.

Nippon Chai Chai Chai Open-air, experimental production in the garden of the Setagaya Art Museum. About an Olympic hopeful in track-and-field and a woman reporter who follows his every movement. May 11-16 only. (394 9939)

The Wars of the Roses (Tokyo Globe Theatre, Shin-Okubo). The English Shakespeare Company opens Tokyo's newest theatre with Michael Bogdanov's lively and inventive production of Shakespeare's English history plays. The theatre was designed by Arata Isozaki, as a witty pastiche of the Elizabethan original. A bare stage throws the focus on the actors and onto costumes that range from medieval through Victorian to punk. Barry Stanton's fine Falstaff in Henry IV is an excellent foil to Michael Pennington's amiable Prince Hal. In English. Six plays in repertory. (343 4751).

Hanshin (Theatre Apple, Shinjuku). A recent survey indicated that Yume no Yuminsha is the most popular theatre group among today's young generation. Hideki Noda's productions are complex fantasies with a strong vein of surrealist humour. Noda himself is a high-energy comic performer of great charm and the entire company is skilled in song, dance and acrobatics. Total Theatre at its most exuberant. Ends May 15.

Opera-za no Kaijin (Nissei Theatre) – better known as The Phantom of the Opera. Andrew Lloyd Webber's latest smash-hit arrives in Japan in a production by Harold Prince for the Shiki Theatre Company which is a virtual carbon copy of his London and Broadway stagings.

Kabuki (Kabuki-za). This month's programme features two of the most spectacular works in the kabuki repertoire. At 11am, Imoseyama Onna Teikin, has a first act consisting of two plays performed simultaneously. It makes use of two hanamichi (the raised platform which extends into the auditorium) and two sets of singers. One of the pieces in the performance at 4.30pm, Shiranui Monogatari, is an elaborate stylized fight scene. Excellent English earphone commentary.

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Exchange rate compromise

THE CHANCELLOR of the Exchequer, Mr Nigel Lawson, and the Prime Minister must wish that the issue of exchange rate policy would just go away. Unfortunately, the foreign exchange markets are not so obliging. The strength of sterling this week will, if continued, force them to reveal just a little more about what exchange rate policy actually is.

Coherent

When sterling was allowed to appreciate against the D-Mark at the beginning of March, it was obvious that there had been an important, but as yet largely unclear, shift in the exchange rate regime. Given the disarray within the Government, observers were *forced to assess policy* by the actions of the authorities rather than their words.

As it turns out, action in the last two months has been reasonably coherent. A bold observer can even develop a hypothesis about policy. Since the appreciation against the DM began, base rates have been cut twice, by ½ per cent on both occasions, as sterling strengthened. The official explanation was that the appreciation of sterling is itself a form of much-needed monetary tightening and so justifies some modest compensatory loosening of interest rates.

There appears to be a compromise between the Prime Minister's view that monetary policy should be directed at purely domestic targets and that of the Chancellor, that exchange rate stability is desirable. If sterling continues to appreciate, one must anticipate another cut in interest rates. The point at which that cut would occur is unknown, like so much about the new policy. For the Government, however, that ambiguity is blessed, since it provides a veil over its internal differences.

The policy is not concerned with the balance of payments. One reason for the indifference is that little can be done about it by monetary policy alone. Another justification is that the inflation rate is the more fundamental concern. Indeed, one can even argue that a large current account deficit is what is needed, since it is likely to resolve the dilemma created by the buoyancy of sterling in the face of domestic inflationary pressure.

Furthermore, the study by David Morrison of Goldman Sachs that has attracted such attention this week suggests that sterling is not uncompetitive and is unlikely to become so with a modest further appreciation. More relevant perhaps is the reaction to the marked deterioration of the current account which Morrison, like most other analysts, predicts. It is at least plausible that the UK's net asset position and strong public sector accounts will make the present, or even a somewhat stronger, exchange rate sustainable. Thus, on the basis both of competitiveness and creditworthiness, the present exchange rate may prove durable.

What is much less obvious is whether the uncertainty that has been created by the present exchange rate policy, or rather lack of one, is in any way desirable. Abandoning the fixed exchange rate policy has probably not even helped to improve domestic monetary control. Inward investors now know that there are large potential gains in the short run and this knowledge is quite likely to increase the inflow. Since the Government's response is to reduce interest rates, the net effect on the domestic economy may well prove more expansionary than leaving the exchange rate where it was.

Symmetry

Far more important is the issue of symmetry. Having given in to the "unbuckable" market on the way up, what is going to be said about the equally unbuckable market on the way down? The medium term strategic uncertainty that has now been created cannot be removed by somewhat greater tactical certainty about the interest rate response to exchange rate movements.

The Government needs to throw out some new monetary anchor. *It is obviously difficult to* create a credible fixed exchange rate target, at least without going into the EMS, but it will be still more difficult to articulate a target other than the exchange rate. The Government will probably be forced back on the exchange rate target in the end. It is a pity that they will have created so much muddle and confusion in the meantime.

The politics of land

THE challenging words spoken last night by Mr Nicholas Ridley, the Secretary of State for the Environment, are unlikely to quieten the fears of those who see his policies as bringing about a steady erosion of England's green and pleasant land. For Mr Ridley's actions have spoken with particular clarity. He has adhered to the Government's pledge to protect the Green Belts around London and elsewhere, while at the *same time he has given his* department the reputation of being more in favour of the development of green field sites than it has been under any of his recent predecessors. Since 1979 the area of approved Green Belt has more than doubled to 4.5m acres, and there have been very few decisions to allow construction to take place on any of it. But in Berkshire, Hampshire, Dorset, Cambridgeshire, Essex and elsewhere developments are proceeding apace. Local councils are trying to hold the line, but – rightly or wrongly – the word has got around that it is now relatively *easy to get refusals overriden* by appealing to Mr Ridley.

Increased demand

The Minister's response is robust. Only 2 per cent of planning decisions are made on appeal, he says. The rate at which agricultural land is taken for development has fallen "dramatically". There is a strong increased demand for housing, which is the result of an increase in the number of households. More old people live on in their houses; more young people live alone; more divorced couples are setting up independent homes. *Not all of these new homes can* be provided in the north, or on derelict or previously used land in the cities (although use of that kind of land is increasing sharply). In his view there is no option but to provide some of the necessary land in the popular and wealthy south-east. Indeed, the present projection of 310,000 new dwellings to be built in the Home Counties during the 1990s will have to be revised – upwards.

If this is resisted absolutely, Mr Ridley argues, then many people will be unable to find or afford *housing* in the area. As the Minister puts it, those who would suffer would be at the bottom of the pile – young people who cannot afford to buy, or others who do not fit into council house waiting lists. The south-east, Mr Ridley has said on other occasions, can cope with the demand without destroying the nation's heritage, but it does require some flexibility over planning permission.

Gathering force

Opposition to this line of argument is growing. Many of the Conservative MPs representing south-east constituencies (the Government'e heartland) have begun to show signs of unrest. The point about those at the bottom of the pile will carry little conviction with members who have seen so much shire development take the form of luxury housing. The natural leader of the canse is Mr Michael Heseltine, himself a former Environment Secretary. His espousal of the need to protect the countryside from insensitive development has undoubtedly enhanced his continuing campaign to present himself as a future leader of the party, particularly among members representing rural seats. The disquiet among Conservatives is not simply about new housing estates adjacent to green belts; it is also about the consequences of encouraging rural industries to take the place of a declining agricultural sector – not to mention the propensity of some developers to put np plans to build whole new satellite villages outside existing country towns.

This issue is potentially as explosive for the Tories as any that has caused rumblings of discontent within their ranks during the past decade. It is of the order of the defence of student grants (which scuppered a plan to rednce them) and perhaps of greater force than the debate over the poll tax. On such issues in the past the Prime Minister has let the argument run for a while before tightening the reins on the relevant Minister. On this one the head of steam has been gathering force for some time now. Few Labour MPs are involved; nearly all the Tories are. The division runs across all sections of the party. One trenchant speech by the Environment Secretary will not be enough to put it to rest.

Alan Friedman explains why Dow Chemical and Montedison are not seeing eye to eye over the latter's restructuring

Locked in combat: Dow Chemical's Frank Popoff and Montedison's Raul Gardini

Doubts about the Italian job

IN MILAN, the top executives who work for Mr Raul Gardini, chairman and chief shareholder of Italy's embattled Montedison chemicals concern, are angry men. Their fury is directed at what they describe as the hostility of Dow Chemical of the US.

The American group has dominated Italian business headlines in recent days by taking a minority stake in Montedison and then lodging a protest with Italian stockmarket regulators about an already controversial Montedison restructuring plan.

With a total investment of about $150m (£80m) Dow now owns just below 5 per cent of Montedison. It also owns close to 2 per cent of META, Montedison's profitable financial services subsidiary that is about to be transferred to Mr Gardini's Ferruzzi group through a complex game of musical shares due to be approved at a meeting of META shareholders in Milan today. Mr Gardini owns 42 per cent of Montedison, which in turn controls 63 per cent of the separately quoted META.

Dow has waded knee-deep into one of the murkiest of Italian financial operations at a very delicate moment. Despite repeated denials of any hostile intentions toward Montedison, Dow has managed to both frighten and anger the Italians: two cabinet ministers spent part of last weekend discussing the matter with Consob, the Italian stock market regulatory authority. Although neither Montedison nor Dow has spoken publicly about their contacts, it is known that Mr Gardini and Mr Frank Popoff, Dow's president and chief executive, have been sending each other a series of increasingly unfriendly messages.

The timing of Dow's arrival on the scene is doubly unsettling: Montedison is preparing to sign a letter of intent with Enichem, the state-owned chemicals group, to rationalise the Italian chemicals sector by merging significant assets in a new joint company with sales of more than $10bn. The new company would include all of Enichem and the bulk of Montedison's base chemicals, fibres and fertiliser businesses.

Dow's letter of protest to Consob expresses "alarm" over what Mr Popoff calls the "rather skimpy" *information* Mr Gardini's Ferruzzi group has provided about its plan to strip Montedison of its prime financial assets. On Sunday evening Mr Popoff summed things up this way: "I think we have a little bit of a problem with the META situation. As a shareholder in Montedison we are interested in protecting our investment. We are concerned and frankly we don't understand this transaction."

The plan to transfer META out of Montedison and into Ferruzzi, offering shareholders paper rather than cash and leaving Montedison investors without the META assets, has been sharply criticised since it was announced in January. But Dow's complaints placed it in the implausible role of defending the interests of Montedison's 100,000 small shareholders.

Yesterday Dow suddenly announced that it would not follow through with its protest at today's meeting of META shareholders. The idea, according to sources at Dow, is to "calm the waters" and adopt a wait-and-see approach. So what exactly does Mr Popoff want?

Officially, Dow keeps repeating its interest in playing a role in the future restructuring of the Italian chemicals industry. Dow, the second largest chemicals company in the US with $13bn of sales in 1987, says it does not wish to interfere with the Montedison-Enichem talks. The American company's real goal appears to be twofold: Dow would like to strengthen its Italian operations (1987 sales of $640m) by picking up some assets from Montedison, such as the polyurethane and styrene plastics divisions of Montedison's Montedipe subsidiary: Dow, which already has a joint venture with Enichem in epoxy resins, would also like to become the foreign partner of whatever new joint Italian company eventually emerges.

As far as Mr Gardini and his men at Ferruzzi/Montedison are concerned, Dow is nothing more than an irritation. This, however, is the attitude Mr Gardini has displayed in the face of international criticism of his plan to remove META from Montedison. In London, Mr Albert Alonzo of Barclays de Zoete Wedd, says the Ferruzzi/META plan "might make sense to Ferruzzi, but it does not give much choice to the minority shareholders."

Part of the reason the deal makes sense to Ferruzzi is the way it helps solve some of Mr Gardini's debt problems. Between Ferruzzi and Montedison, Mr Gardini's total debts amount to nearly $8bn.

In the restructuring, META shareholders are to be offered stock in an as-yet-unquoted Ferruzzi holding company in exchange for their META shares. Montedison will then end up owning 36 per cent of the merged Ferruzzi/META, which in turn owns 42 per cent of Montedison. To get out of this situation Montedison will offer its shareholders the right to buy its stake in the new Ferruzzi company. Shareholders who take up this offer will in effect be paying to buy back control of META, along with the other assets of the merged Ferruzzi/META company.

Dow Chemical expressed concern about the valuations made for Ferruzzi and META in the transaction. Many analysts have voiced similar doubts. For example, the Ferruzzi valuation is based on a book value of L9,470 (£3.86) per share for its Montedison stake. Yesterday's share price was L1,481 a share. This means Ferruzzi's Montedison stake is valued at $750m more than its current market worth. The same is true for other Ferruzzi holdings such as its Agricola and Silos stakes. Mr Gardini's men say this is not important.

The deal can undoubtedly be justified in industrial terms: it returns Montedison to its basic vocation in chemicals. But it effectively enables Mr Gardini's family to pay little more than $300m in cash to take direct control eventually of META, which has a market value of $1.7bn. In return, Mr Gardini is placing all his other Ferruzzi assets in the new company, thus diluting his family's control of the empire. The deal will also reduce total group debt by around $800m, to $6bn. (Shareholders' equity after the deal will be $5.4bn.)

At the end of the day, despite the detailed defence offered by Mr Gardini's financial aides, the Ferruzzi/META deal still raises many questions. That it will go through this morning is not in doubt – Montedison controls 63 per cent of the votes at the META meeting.

To those who criticise him, Mr Gardini has in the past replied: "This is an Italian operation in the Italian market and I will not be judged by Wall Street or London criteria." Those foreign investors who don't like the deal, he *said a few weeks ago*, should not bother to buy shares in Montedison. His aides mutter *sotto voce* that this is the way business is done in Italy and other big companies do similar deals.

In London, one senior merchant banker who preferred not to be named reacted brusquely to this *Cosi fan tutti* approach to finance. "Gardini's attitude may work in the short-term, but it is simply not tenable for a multinational company that may wish to tap the international capital markets for funds in future. Investors don't always have such a short memory," he said.

This is the spectacularly Italian situation which Dow Chemical of the US has now joined. At Dow's headquarters in Midland, Michigan headquarters, Mr Popoff and his aides may well be wondering just what they've got themselves into.

Dow Chemical's aggressive approach to building a global business

DOW CHEMICAL'S brusque approach to Montedison has taken the US chemicals industry and Wall Street by surprise, but nobody has suggested it is out of character.

Dow is a big, proud and cantankerous company that runs its business from behind a wall of distillation columns and crackers in Midland, Michigan. It is by far the most global-minded US chemicals company, with a well-founded reputation for aggressiveness.

The largest US producer of the bulk chemicals used to make plastics, solvents and coatings, Dow derived 53 per cent of its record $13bn in sales and $2.3bn in operating profit last year from outside the US. Dow Europe, with $5bn in sales and $1bn in profits this year, is only slightly smaller than the US business. The company's three last chief executives were born in Europe.

Zoltan Merszei, who built up Dow Europe in the 1960s, came from Hungary. Paul Oreffice, who ran Dow with an iron rod from 1978 until 1987, was born in Venice. And Frank Popoff, a breezy, articulate man who masterminds the battle of wills with Montedison, spent the first six years of his life in Bulgaria and ran Dow Europe from 1981 to 1985.

Recently, Dow has been trying to improve its image. But in the chemicals industry, which buys the ethylene, styrene, caustic soda and propylene Dow does not use itself, the company is feared for its brutal price rises at times of tight supply. At present, capacity is so tight that Dow's profits are soaring and coffers are bulging.

But Wall Street believes that bulk chemicals sales will soon reach their cyclical peak and Dow would prefer to plough its profits into more stable speciality chemicals, pharmaceuticals and consumer products.

To do this, Dow is willing to run the risk of appearing a bully. In 1984, it bought 8 per cent of Morton Thiokol, a diversified chemicals and aerospace group, then threatened to raise the stake to 15 per cent. The two companies talked and Dow ended up swapping its shares and $131m for a Thiokol division called Texize, which makes Spray 'n Wash stain remover and other household products.

"It looks like this is how it may work out with Montedison," says Mr Manuel Pyles, an analyst with A. G. Edwards in St. Louis. "I think they want to participate in one of Montedison's businesses, probably in speciality rather than bulk chemicals. ... And they are creating leverage again through stock ownership."

Another attraction of Montedison is the relatively unstructured nature of the chemicals business in Italy, the only one of the big four West European countries to have a negative balance of payments in chemicals. It could well benefit from the kind of restructuring which has taken place in other parts of the European industry.

After going through an extremely rocky patch at the beginning of the 1980s, most of the big chemicals companies in Europe have shed capacity at great speed, concentrating on higher-growth areas of the business. In some areas of chemicals, the cuts have amounted to as much as 25 per cent of capacity. The industry now has reduced overheads and – helped by booming demand – sharply higher profits.

The boom has been especially marked in such classic bulk plastics as high-density polyethylene, polypropylene and polyvinyl chloride. There has, however, been increasing fragmentation of output.

Solvay, the big Belgian chemicals concern, now makes 52 different grades of polyvinyl chloride, a plastic commonly thought of as being a staid, low-growth product, for applications ranging from window frames to industrial items. And Hoechst now makes roughly 60 different grades of high-density polyethylene; 10 years ago the plastic was sold in just a few types.

Many executives still think more restructuring is needed – for example, to take the number of ethylene producers in Western Europe, which has been halved to about 15 since 1979, down to less than 10. Anything that happens along these lines in Italy – through the Enichem/Montedison deal, or precipitated by Dow – would help that cause.

James Buchan and Peter Marsh

OBSERVER

Worm to beat all worms

■ Ellen and Richard Bush were eating Sunday breakfast at their bungalow in Herne Bay, Kent, when they noticed a blackbird *having a tough time with* a worm on their lawn.

When the Bushes pulled the worm free, they found it was 6¼ft long. They coiled it up with some earth in a bowl, and took it to the Brambles Wildlife Park near Canterbury where the owner Alan Breeze tried to keep it alive on a diet of soil.

Unfortunately, it was looking pretty limp by the time a television camera crew had been diverted from the Dover ferry strike to film it. All that is left is a 6ins long front bit which Breeze has named Michelle.

He put the back end in a car*board flourescent light box* and gave it a decent burial in the woods. The Guinness Book of Records is interested in verifying the find. Their British record is a 44ins long King rag worm from Northumberland, but a worm of 22ft was found in the Transvaal in 1937.

Tha Bushes believe a heavy rain storm could have brought the worm to the surface. "We are wondering what else may be down there," said Ellen Bush yesterday. The blackbird had not been seen since.

Breeze, meanwhile, is keeping an eye on Michelle. "I looked in today and found it had grown to 8ins and was a little worried, but I think it was just expanding," be said before returning to the latest, but less spectacular find to come his way - a one-eyed hedgehog.

UK off target

■ A dozen paratroopers wafted down towards the grass near the European Communities' office in the Jean Monnet building in Lisbon on Monday. Each held the flag of a member state in airborne tribute to Europe Day.

One paratrooper, caught in a sudden gust, floated off. He landed, to the dismay of its occupants, on the roof of an office building, way off target.

Alas, the trooper who went astray bore the British flag. Reminds you of British participation in some EC summits, said the Lisbon daily, Diario de Noticias.

Come to think of it, most of us in Britain did not even know that it was Europe Day.

Morrison's luck

■ David Morrison, the man whose paper on the prospects for sterling helped to send the pound shooting np again this week, attributes a lot of the effects to the *timing*.

Although he had been working on the paper for some months, he says that it was fortuitous that it came out just when the markets had decided, for no very good reason, that the market was set for change.

The setback to the Federal Government in the state election in Schleswig Holstein on Sunday also helped, as did the decision of the German authorities not to tighten monetary policy at the end of last week.

As Morrison notes in his paper: "the present German monetary-fiscal mix is unsupportive of the Dm...and the UK economy is in much better shape than Germany's." He expects this to continue for some time and does not see much of a domestic rationale for a cut in UK interest rates.

Now 36, Morrison joined the Bank of England from the University of Glasgow as an international economist working under Eddie George in 1974. He worked at two stockbrokers, Phillips & Drew and Simon & Coates, before becoming chief international economist at Goldman Sachs 2½ years ago. The last time he created such a stir in the press was when he wrote of the pound falling into "a black hole" – below $1.50 – around the end of 1984.

"Hey guys – I think I found another quibble."

The current paper, incidentally, is not nearly as sensational as has been suggested. Nothing like the pound going to DM4, but just a bit stronger than today.

Morrison has been ranked number one in the Extel survey of currency forecasters for the last nine years. "There's only one way to go now," he says.

New Yorker show

■ Steve Florio became publisher of the New Yorker three years ago and the magazine has been expanding ever since.

"I went into this room and there was all this art," he says. When be asked whether any books had been produced showing the famous covers and the even more famous cartoons, the answer was "no".

Florio realised that the cartoons and art work of the New Yorker were a perfect marketing tool and mounted a 60 year retrospective exhibition which has already been in New York, Boston, Chicago and Los Angeles.

The exhibition opened for a two month run at the Victoria and Albert Museum yesterday with many of the magazine's cartoonists in attendance.

Although there have been complaints from the purists that the new management has done vulgar things like marketing the New Yorker on television, there has been a steady climb in circulation.

Florio, who was put in to look hard at the commercial operation of the company while keeping the editorial style, inherited a magazine with a circulation static at around 475,000 copies for 20 years. The last time there had been a major subscription drive, he says, was in 1971, yet subscription renewals ran at a remarkable 75 per cent.

Circulation has now risen to a *record 620,000 and in terms of* advertising revenues it has gone from being "one of the also rans to one of the *top ten*."

In London yesterday for the opening of the exhibition, Florio said he plans to devote a lot more attention to increasing sales in the UK at news stands, in leading hotels and airport bookshops. Present sales in Europe are minute.

Insult to Hick

■ The races in tonight's National Hunt meeting at Worcester honour the county cricket club, most of them being named after a current member of the side.

Few will quarrel with the topicality of the Ian Botham Handicap Chase, particularly since he extended his run of indifferent form by scoring a mere four yesterday. The last race, however, is called the Graeme Hick Novice Handicap Hurdle. "Novice" seems a bit mean after that 405 not out, and while optimistic punters often call the last race the Getting-Out Stakes - the one on which to recover previous losses - that seems even more inappropriate on this occasion.

It would be entirely fitting if a horse called Bold Answer were to win.

Hazel Duffy talks to Sir Trevor Holdsworth who takes over as CBI president tomorrow

Standard bearer for manufacturing

BETWEEN 1980, when Sir Trevor Holdsworth took over as chairman of GKN, and his retirement this month, the group's UK workforce shrank from 70,000 to less than 20,000 as a result of closures, sales and productivity drives.

Now, as he takes over tomorrow as president of the Confederation of British Industry, he compares the recent experience of the whole British economy with sort of changes that GKN has had to go through. "Britain is like a company that has had to be restructured. It has gone through this rationalisation, but now it has to change gear. It has gone through the break-even point and is making profits. Now it has to sustain that."

He has no new ideas about how this should be done. "It is really all about investment, in people, training, technology, research and development, and plant. Five years is a long time to hold on to plant these days. We had a terrible reputation for old equipment. Not only that, we were proud of it."

This is the main message that the CBI has been propagating among its members for many years, with mixed results. Numerous reports continue to point to too little training – whether of managers or school leavers – and of people coming out of the education system quite unprepared for the requirements of business.

Sir Trevor agrees that industry should be concerned. He has an abiding interest in education. He did not go to university – he qualified as a chartered accountant in a Bradford practice – but he has picked up four honorary doctorates to date. His particular interest is in management education, where his initiation goes back to the first course at Ashridge College, Hertfordshire, which he attended in 1959 (he is now a trustee). He was chairman of the British Institute of Management in 1980-82.

He has put his interest into practice at GKN, although when asked whether his managers get enough training, he replies decisively: "Never. But we do run a lot of courses – it is no use thinking you can do it by taking people out on courses – and we are always changing the type of course. You have to be flexible." But he recognises that there are difficulties for smaller companies in releasing their managers.

Britain's industrial problems have often been attributed to the gulf between industry and education. Sir Trevor blames the Victorians. "It was the Georgians who created Britain – the great entrepeneurs were at the beginning of the 19th century. But the ability to carry it through was lacking. Our engineers were superbly practical, many of them had no qualifications. They were superb empiricists. But the Germans and Americans caught on early that you could not go on in that way.

'UK companies are probably more internationally minded now than German ones'

Arnold, Newman, the great educationalists, were all about religion in education, preparing people for empire, running an estate. As the Brookings Institution report said 10 years ago, our productivity malaise lies deep in our social system."

Researching into GKN's history, Sir Trevor was appalled to find that it was a chairman of Guest & Company who advised his board of directors that "chemists should be kept in a cage."

In 1851, Guest & Company was the largest manufacturing company in the world with 10,000 employees. The base of the company was steel-making. Much later, in the 1960s, that base was torn away when the Government nationalised steel.

At that stage Sir Trevor was managing one of the engineering divisions. "It forced us to look at what we wanted to be, to find something else to do." He was largely responsible for drawing up the new strategy, although it was not until he became chairman in 1980, following the unexpected resignation of his predecessor, Sir Barrie Heath, that he had a free hand to implement it.

"We had to get out of steel (the group still had considerable interests), internationalise – we were predominantly Commonwealth-oriented – build up automotive support, and develop non-manufacturing businesses. We chose distribution, which we did not do well at, but out of that emerged industrial services." A few years later, when the Heath government offered the steel companies back, GKN turned them down.

GKN has invested in the US, in Japan, in the European Community. The UK accounts today for only one third of group assets. In one automotive product – constant velocity joints – it is world leader.

GKN made pre-tax profits of £147m in 1987. But Sir Trevor hates the idea of companies being judged only on profit. "I don't mean that socially it is wrong, I mean that it is success that is important – success in product, technology, service – and profit comes with success."

Success was not too evident at GKN in the recession. But Sir Trevor does not side with those who accuse Mrs Thatcher of policies that were too hard on industry. "We needed that shock, that burst of freedom. Over the years, everybody had tried, including Wilson and Callaghan. It had not worked. I remember one calculation – I do not know its source – that around 10m people in the UK were underemployed in 1980."

Slimmer, more competitive, British companies have invested heavily overseas again in the last few years. Sir Trevor thinks they are probably more internationally minded than German companies. Their focus has been very much on the US, he says, "but I think it will move increasingly to the EC as 1992 (the single European market) looms, and particularly across the German border."

He has worked hard to Europeanise British business. Some time back, he was a member of a group of chairmen from big companies in the EC, set up by Count de Boel, the Belgian steel magnate, which he believes did much to lay the foundations for 1992.

At another level, he has helped set up COMMET, which co-ordinates trade associations representing the British engineering industry, to maintain liaison with other EC trade associations. "If 1992 works, perhaps we will see just one European trade association for each sector. The CBI might then become a regional association for industry."

In the meantime, he would like to see more investment in Europe. "British firms are really quite small. They need to be bigger. It is not a question of size as such but so as to be able to undertake long-term research and development and have the time to mature products."

He is not enthusiastic about mergers and takeovers which involve companies going off at tangents to the business they know. Mergers should be about people coming together in the same field, he says. But competition policy has been the barrier.

"If you knew something about the business you wanted to acquire, you were not allowed to acquire it. Only if you did not know anything about it could you buy it, and then you could become a conglomerate. The big conglomeration period in America was all about avoiding competition policy. You could buy anything as long as you did not already have something in it."

Sir Trevor is a great fan of manufacturing industry. His industrial pedigree was one of the factors which led to his selection as CBI president, where some of the old guard are none too happy with the increasingly disparate membership.

"Manufacturing provides a far better quality of earnings. You have got tradable goods. If you are in steel, chemicals, you know when you are efficient because you have got competition all around you. You know your standards are right. We know that the Japanese are terribly inefficient on services with their layer upon layer of distribution. But it does not matter, because it takes place inside the country. The route the Japanese went down was to be productive in those sectors where we were least productive – steel, motor cars, machine tools, consumer durables. A lot of things that went wrong with us you now see happening in the US."

Sir Trevor would like to see more of an understanding between government – of whatever political colour – and industry in Britain, a point that he tried to make at the last CBI conference. He did not want to labour the point too much in case it looked as though he was arguing for a policy of industrial strategy, but his soft pedalling left some delegates unhappy.

Trying to please everybody, and not upset the government that business wanted, can prove a tortuous path for the CBI. But Sir Trevor is not perturbed. He is satisfied that the CBI is effective when lobbying government. "It is too simple to draw strict correlations between what we said and what then happened, but the influence in things must be there."

UK economic policy

Why we need to tax the market value of housing

By John Muellbauer

THE DIRECTION of UK tax reform is towards increasing neutrality. The logical next step on this road is to tax imputed rents on private housing by incorporating them in the income tax base. Imputed rents should be based on the market prices paid for dwellings, updated annually using information which the Inland Revenue already collects from almost 1m housing transactions a year as a by-product of the administration of stamp duty.

The economic case for such a reform in terms of improvements in economic efficiency, avoiding inflation and achieving some fairness is very powerful. In contrast to domestic rates, households with low cash income would pay little or no tax on imputed rents, the arbitrary element in rate valuations would be absent and arbitrary or even perverse variations in tax rates across different locations would be avoided.

There are seven main arguments in the economic case in favour of a national tax on imputed rents based on capital values which I shall now outline.

The first is the spending power argument. Someone who owns a dwelling has a greater real spending power than a renter with the same employment and investment income because the owner occupier does not pay rent. Similarly, centrally located owner occupiers have lower travel costs and so greater real spending power than those less favourably located.

The second is the "betterment" or service charge argument. A large element of property values derives ultimately from public expenditure, whether it is the building of the M25 or the provision of good schools, or from public legislation.

The most important example of the latter is our system of planning controls. As well as providing general public goods of environmental and aesthetic quality, it enhances the property values of those, who by fortune of position, already obtain disproportionate direct benefits from such legislation.

The third is the congestion tax argument. The proposed tax would bear particularly heavily in locations where the pressures generated by high business activity are greatest. The property market is an informative and sensitive indicator of economic pressure and offers an efficient means, through taxes, of generating sensible incentives for location decisions. The proposed tax would do much to compensate for the North-South divide – and reduce the need for specific subsidies and other interventions in the deprived areas. The Government has implicitly recognised the importance of this argument by going for a uniform national business rate.

Fourth is the argument that a tax on annually updated imputed rents is a kind of inflation tax. It is a basic fact of labour markets that an increase in labour demand generates more upward wage pressure than the downward pressure from a decrease of the same size. Labour demand in the south east has undoubtedly increased relative to that in the rest of the economy in the 1980s. A result has been national wage inflation greater than would have been experienced if labour demand had been less regionally biased. One way of reducing this source of inflationary pressure would be to tax employment where it has been growing most rapidly and subsidise it where it has been falling most. But a national tax on annually updated imputed rents of dwellings achieves much the same effect more simply since regional property market values are fuelled by regional employment and wages growth.

My own research has brought to light an even more important involvement of house prices in generating wage inflation. This appears to work partly through the cost of living and partly through the mobility restraints that come from widening regional differences in house prices relative to earnings. House price to earnings ratios and their regional differences have been fuelled, given the tax biases in favour of owner-occupation, by the ending of overall mortgage credit rationing in 1981 and by financial liberalisation.

Fifth is another reason why a national tax on annually updated imputed rents is a kind of inflation tax. In the high inflation years between 1967 and 1982, owner occupied housing had by far the highest after-tax real return of the major asset types, including UK equities. Taxing annually updated imputed rents has two effects. First, it raises taxes and so reduces household demands and liquidity at the very time these are contributing to inflationary pressure. (It also has an automatic stabilising effect on the economy in the opposite direction at times of recession.) Second, it reduces the incentives on decision takers, whether trade unionists, businessmen, civil servants or politicians, to take inflationary risks because it reduces the degree to which they personally stand to gain from or at least insure themselves against inflation.

The sixth argument concerns tax neutrality for businesses. Taxing imputed rents avoids distorting the investment decisions of entrepreneurs. With the tax, they are more likely to re-invest profits in their enterprise or in other businesses rather than to divert them into owner-occupied housing.

The final argument concerns tax neutrality for households. A national imputed rent tax would create an incentive for households, especially in the pressure areas where house prices are highest, to switch expenditure out of owner-occupied housing into other things. This would release accommodation for the rented sector and bring down house prices and so market rents relative to earnings, especially in the areas of pressure. The Government would then have a much better chance of fulfilling its pledge to revitalise the market in rented accommodation, thereby improving labour mobility.

It can be argued that the last five arguments equally well support the reintroduction of capital gains tax on housing. While there is some truth in this, the main drawback of capital gains tax is its incentives against mobility.

The reform I have outlined is likely to prove an even more important step towards an economically efficient and non-distortionary tax system than the reforms in the 1988 Budget. The time to thus broaden the tax base is when domestic rates are phased out, which minimises change for the majority of tax payers. Finally, if the Poll Tax is not, in the end, adopted, this broadened income tax base would be a superior basis for a local income tax.

The author is Official Fellow in Applied Economics, Nuffield College, Oxford.

Letters to the Editor

Equality is a balancing act

From Mr W.W. Wood.

Sir, "Sex, the law and economics" (May 6) questions "whether more than a minimal amendment of the (equal pay) law is necessary" following the Law Lords' ruling in the Julie Hayward case.

The answer is a resounding yes.

Since the 1983 *Amendment* to the Equal Pay Act we and many others have been calling attention to the illogicalities and impractical requirements of the existing law. Three years ago we were castigated for suggesting that the amended act was a "timebomb" which could directly raise costs in some organisations by 10 per cent *over and above* any costs of removing discrimination of the grounds of sex. Time is running out.

You highlight the conflict between the law and common sense in defining "equal pay." But you also state that "market economists *may say it is impossi*ble, but those on the ground seem to have little difficulty agreeing what in practice constitutes work of 'equal value'". Sadly, this is far from being the case.

The law requires "value" to be largely determined by what the employee *inputs* to the job, not *outputs*. It is in deriving the right balance between these that employer, employee and now the law can reach very different conclusions. I urge you to press for a full review of the Act.

W.W. Wood,
PA Personnel Services,
Hyde Park House,
60a Knightsbridge, SW1

Companies are part of Community

From Sir Hector Laing, Chairman, Business in the Community.

Sir, In "Lyons should hunt Gazelles" (May 6) Michael Prowse suggested that "chairmen should stay in their board rooms and worry about their companies' performance" and not become involved in helping local communities to help themselves. If we want to live in a jungle that may be good advice.

Today's industrialists are following in the footsteps of their forebears who helped to build much of what was excellent in our cities in the 19th century. While business leaders may not nowadays live in city centres as their forefathers did, they continue to recruit their employees and sell their products there, and so it is in the best interests of their companies and their shareholders in partnership with Government, local government and local people to ensure that these communities are as secure and prosperous as possible.

If we want to leave a legacy to our children and grand-children of which they and we can be proud – and I am sure we all do – then more UK companies should become involved, and the level of giving should be at least 1 per cent of UK pre-tax profits. Of course bottom line is important, but history will show bottom line without at least 1 per cent to the Community to have been very short-sighted.

But we need much more than just corporate giving. The challenge is equally about how well we apply our business skills and leadership to the task, and how we can create new opportunities in our inner cities through investment, through training and through purchasing; in other words, through our mainstream business. This is why more than 300 of the most successful companies in the UK are active members of Business in the Community.

Hector Laing,
Business in the Community,
227a City Road, EC1

Television and Gibraltar

From Mr G P Ledeboer.

Sir I wonder how many right-thinking people would agree with Christopher Dunkley's voluble lambasting of the Government (May 4) for requesting that a grossly slanted piece of television like the Thames Television feature on Gibraltar should not have been shown?

G.P. Ledeboer,
Pinewood,
Framewood Road,
Fulmer, Buckinghamshire

Cheaper to sell insurance direct

From Mr A. Duval.

Sir, In his letter about the forthcoming requirement to disclose life assurance commissions (April 29), Mr Proudfoot says: "The fact is that it is cheaper to run a life office selling through independent intermediaries rather than any other route."

This is simply not true. There are some life offices selling through tied agents which incur higher expenses than the offices selling through independent intermediaries, but an examination of the inter-office expense comparisons made each year under the auspices of the Association of British Insurers, and referred to in last February's interim report from Peat Marwick McLintock, commissioned by the Securities & Investments Board (SIB), shows that the life assurance companies which consistently show the lowest level of expense – materially lower than companies selling through independent intermediaries – are companies which sell direct to the public.

It is a matter of opinion whether independent intermediaries give better advice than insurance company representatives. In my opinion it is highly doubtful. What is undeniable is that selling life assurance through independent intermediaries is an inefficient and expensive method of distribution.

A. Duval,
Hillview,
Paddock Lane,
Kettleshulme,
Stockport, Cheshire

'Bright young men from London are no substitute for local involvement'

From Dr William Wallace.

Sir, It is a splendidly romantic idea to imagine that we can turn the clock back 120 years or so and reinvent the Victorian "city fathers" who took responsibility for urban improvement, technical education, and local political leadership.

It may even be a realistic idea in the US, where a decentralised economy and a federal political system have left company headquarters and industrial leadership spread across the country. But our Prime Minister, given her enthusiastic support for the idea at the Private Sector Initiatives Conference on May 3, should be advised that the centralisation of the British economy makes it totally impractical in the UK.

Sir Titus Salt, who built Saltaire and provided its original school, almshouses and hospital, was one of the exemplars of the responsible Victorian industrialist. His entire business career centred around Bradford, even though the products of his mill flowed out to the world market. He relied for financial support primarily upon local banks.

He lived two miles from the mill, and was regularly to be seen driving through the village. The company headquarters of Salts (Saltaire) was of course next door to its manufacturing operations; the millworkers walked past its front entrance twice a day. He took an active part in local politics, supported the raising of rates for civic improvements and was proud to become mayor of Bradford. He also, briefly, became a Bradford MP.

Modern-day Bradford is to a great extent a branch economy. The devastation which hit its industries in 1980-81 was the product of decisions taken in Chicago and New York as much as in London, with company headquarters retrenching by closing what – to them – were marginal activities.

There are, certainly, a number of local entrepreneurs. But they do not pretend to rank alongside the modern multinationals, and many are sub-contractors or component suppliers to companies controlled from elsewhere. Almost none have time to serve on Bradford's embattled council, struggling to promote economic regeneration under the harsh constraints of ratecapping and declining support from central Government.

Yorkshire's successful entrepreneurs migrate to London and beyond. Lord Hanson's horizons are not those of Titus Salt, nor is the civic pride of Huddersfield the centre of his preoccupations. There are no truly independent Yorkshire banks, and few important companies beyond Rowntree with headquarters and loyalties firmly fixed in Yorkshire.

The great exception to this centralising tendency is to be found in the building societies; Halifax, Bradford, Bingley and Leeds benefit from the local leadership and employment their headquarters provide. But I note (Financial Times, May 6) that takeovers and mergers in the building society world are expected to exert, over the next 10 years, a similar centralising and rationalising pull. Government competition policy does not recognise the maintenance of independent industrial and financial institutions outside London as a significant dimension in adjudicating on takeovers.

The regeneration of Britain's cities can only come from local involvement, local leadership, and local democracy. These are all vigorously present in Boston, St Louis, Cincinatti and Chicago; but they have gone in Britain. Mrs Thatcher's Government has carried the process further through its increasing restrictions on local autonomy. Synthetic attempts to replicate the effect by sending out teams of bright young men on short secondments from London cannot provide a substitute.

William Wallace,
The Royal Institute of International Affairs,
Chatham House,
10 St James's Square, SW1

FINANCIAL TIMES

Wednesday May 11 1988

Bhopal disaster caused by sabotage says report

BY PETER MARSH IN LONDON AND JOHN ELLIOTT IN NEW DELHI

THE BHOPAL chemical disaster in India in 1984 was caused by employee sabotage rather than shoddy management or poor plant design, according to an independent study commissioned by Union Carbide, the US operator of the factory where the accident happened. The report also says that Union Carbide workers collaborated in a "massive cover-up" after the accident.

The study, published yesterday, comes as Union Carbide is in the throes of a legal battle with the Indian Government over liability for the disaster which caused 1,500 deaths and 40,000 serious injuries.

The Indian Government is almost certain to contest the findings of the report, produced by Arthur D. Little, a US firm of technology consultants, and it is unlikely to bring the legal tussle to a rapid conclusion.

Last night, Indian Government sources declined to comment in detail on the report, which they had not seen. But an official said sabotage was "an old story" and the Government had heard no convincing evidence on it. "We are not impressed," the official said.

Union Carbide said yesterday that the Arthur D. Little report, based on interviews with 70 people associated with the accident, lent credence to its argument that it should not be held directly liable for the accident.

The company was, however, prepared to accept moral responsibility. It said it had proposed last year to pay up to $500m to compensate victims, without accepting legal liability, but that this had been rejected by the Indian Government.

Prolonged legal action over compensation is still progressing through Indian law courts, and experts in New Delhi believe the report is part of Union Carbide's campaign to win its case.

Last December, an Indian court ordered Union Carbide to make an interim payment of $270m in compensation. The company is contesting this order through the Indian legal system.

The Union Carbide report was written by Indian-born Dr Ashok Kalelkar, a senior vice president at Arthur D. Little. Union Carbide paid the company to produce the study because it lacked faith in the Indian Government's own investigations.

The 37-page study, released in London during a conference on chemical accidents, attempts to explain how water came to be introduced into a storage tank filled with methyl isocyanate at the Bhopal plant. This, both sides in the dispute accept, was the factor that sparked the release into the atmosphere of a cloud of poisonous gas, leading to the deaths and injuries.

The Indian Government has put forward the theory that water accidentally entered the tank during a poorly supervised washing operation, a mishap made worse by poor plant design. But the Arthur D. Little report says this theory "could not withstand even minimal scientific scrutiny."

According to Dr Kalelkar, Union Carbide workers tried to cover up what had actually happened, namely that a disgruntled employee had deliberately fed water into the tank using a hosepipe. The aim had been not to cause an accident but to contaminate some of the company's products. Afterwards, employees had not been truthful about the sequence of events, even to the point of falsifying plant log books.

Dr Kalelkar said the Indian Government held documents and test results which "completely discredit" its own version of events at Bhopal, but, nonetheless, was continuing to embrace its own theory.

Last week, Union Carbide asked Mr M.W. Deo, the Bhopal district judge who made the December judgment on compensation, to resign from the case. The next court hearing is on June 16.

Tony Walker describes the plight of refugees fleeing bloody civil war in southern Sudan

Exodus to the slums of Khartoum

SALVATORE is tall and terribly thin, almost emaciated. Together with about 1m Sudanese crowded into squalid shanty towns on the fringes of Khartoum, he is a refugee from a brutal civil war threatening to tear apart the largest country in Africa.

Sudan's capital is being choked by a huge influx of displaced and destitute people from the south in a development barely acknowledged by the authorities and virtually ignored by the international community.

About 30-40 shanty towns have grown up in and around Khartoum to accommodate the hundreds of refugees who arrive each week, forced to flee from an increasingly bloody civil war in the south between government forces and those of the Christian-led Sudanese People's Liberation Army (SPLA).

Salvatore, a Catholic from southern Sudan, is typical of the thousands who have taken refuge in hot and dusty settlements rife with disease and despair. He "supports" 26 dependants on less than $1 a day. He receives no food relief.

His home in the Hillat Shook camp – the largest of the refugee settlements – is a flimsy structure shaped like an igloo that is covered with sacks crudely stitched together. The only money he earns comes from the sale of water which he fetches by donkey cart. "I am sick," he says, "but I carry water so the children can eat."

Several relief agencies, including the Sudan Council of Churches and Unicef, are doing their best to help alleviate the suffering, but they are operating under constraints. This is because the plight of the mostly Christian and animist refugees has become enmeshed in the politics of a Sudan ruled by a Moslem-dominated Government, most of whose members are from the north.

At Hillat Shook, on a rubbish dump of rusting car bodies and broken glass, live as many as 30,000 people in crude shelters. Daytime temperatures exceed 45 deg C. Until recently, the camp had no running water.

Now, with the help of Unicef, a water pipe has been extended to the camp, one of the few gestures the authorities have been prepared to make in acknowledgement of the huge numbers of refugees.

Sudanese officials are becoming increasingly sensitive to criticism of their handling of the problem. They particularly resent suggestions that religious prejudice may be influencing their approach. Several Western relief agencies have had their permits to operate in Sudan withdrawn this year at a time when the country's problems are becoming even more critical.

About 3m people have fled southern Sudan since the civil war intensified three years ago. Many of them are younger men who have joined the SPLA in its bases across the border in Ethiopia. It is women and children, and the weak and the aged, who have sought refuge in Khartoum, swelling its population by about a quarter.

Well-documented reports of massacres by Arab militias, armed by the Government, are cited by Western relief workers as a major cause of the movement of huge numbers of people north towards Khartoum. In early 1987, between 500-1,000 members of the Dinka tribe, many of them old people, women and children, were killed near Safaha in the south by government-armed irregulars who were taking revenge for casualties they had suffered at the hands of the SPLA. There have been other such cases.

Salvatore, who is a Dinka tribesman from near Malakal, a large southern town, said an Arab militia had taken his cows – his main livelihood – and those of his family in a raid in a mainly Christian area. He had fled north three years ago "because we were fighting with the Arabs."

Salvatore said he had come north for protection. "We know all the embassies are here," he said. "If we get killed, people will witness what has happened."

Western officials in Khartoum say the problem of displaced Sudanese reflects the complete breakdown of security in much of the south, where government troops are under SPLA siege in the larger towns such as Juba, Wau and Torit.

"It is one of the nastiest civil wars you can imagine," said a Western observer. "The reasons for the displacement of people are very clear. They fear for their lives and are willing to travel huge distances to escape from the fighting."

The Government is reluctant to acknowledge that its capital, with a population of about 3m (excluding the displaced), is in danger of being choked by southern refugees. It appears to think that to do so would be to admit that the presence of huge numbers of displaced people is a problem that has to be dealt with officially.

The Sudanese authorities have resisted proposals from relief agencies – such as requests to build latrines in the shanty towns – that would give them any appearance of permanency.

At Hillat Shook, people defecate in public view because there is no alternative. Lack of sanitation contributes to the spread of disease in the camps, including an outbreak of meningitis. Unicef reported that by the end of April there had been about 18,000 meningitis cases in Sudan, half of them in Khartoum.

Other diseases rife in the camps include malaria, tuberculosis, dysentery, conjunctivitis and upper respiratory tract infections caused by poor hygiene.

One of the consequences of the massive displacement of population is the presence on the streets of Khartoum of between 10,000 and 20,000 street children, most of them young boys between five and 15, who engage in petty crime and male prostitution.

Attempts at reconciling some of these children with their families in outlying areas have met with only limited success. War, drought, poverty and the lure of the bright city lights has encouraged the growth of a new "streetwise" class of Sudanese, who prowl the dusty thoroughfares of the capital scrounging a few cents to indulge favourite pastimes such as glue-sniffing and attending kung fu films. "It's a heart-rending situation," said a relief worker. "As if Sudan does not have enough troubles already."

Evidence increases of tighter Fed policy

By Janet Bush in New York

EVIDENCE mounted yesterday that the US Federal Reserve has tightened monetary policy in response to growing fears about higher inflation, as the outlook for interest rates continued to dominate the mood in US financial markets.

Rising interest rates provided an inauspicious backdrop to the first leg of the US Treasury's $26bn quarterly refunding. This was amid worry that demand from Japanese investors, who are concerned not only about interest rates but the dollar's vulnerability, would prove disappointing.

US bond prices weakened as the auction of $8.75bn of three-year bonds was opened. The yield on the Treasury's benchmark long bond touched 9.17 per cent at mid-session, its highest level this year. The rate on Federal Funds rose to 7⅛ per cent, providing confirmation to many bond traders that the US Federal Reserve has tightened monetary policy.

The prospect of higher interest rates has been putting pressure on the bond market for some weeks, taking yields to their highest levels since December. The market is firmly convinced that the Fed has tightened policy and is nervously trying to guage by how much. Speculation is mounting that US banks will raise their prime rates within the next few days.

Most bond traders believe the Fed has tightened credit since Friday's release of another set of strong employment figures and is now aiming Federal Funds at about 7¼ per cent compared with 6¾ per cent to 6⅞ per cent in recent weeks.

The Fed's money market operations this week have not provided a conclusive signal about the extent of the tightening. Monday's unaggressive addition of reserves to the money market was widely seen as confirming that interest rates were being nudged higher.

However, yesterday's money market operation appeared to have been deliberately neutral, leaving the market still guessing. The Fed appeared to have been reluctant to give the market a signal one way or the other about the extent of any tightening in policy in the middle of the refunding.

Mr Robert Brusca, bonds economist with Nikko Securities in New York, said there had been nervousness about the US bond market in Japan and he expressed concern about Japanese participation in the auction.

He sees very little room for a recovery in bond prices. "If the market doesn't fall apart before the auctions, it will fall apart afterwards," he said.

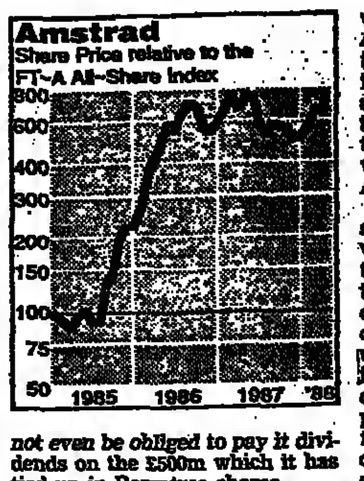
● Mr Beryl Sprinkel, chairman of the White House Council of Economic Advisers, said he did not expect a sharp rise in prices and estimated inflation to be at or below 4 per cent by the end of the year. He said President Reagan believed this figure was still too high.

Speaking at Eastern Connecticut State University, Mr Sprinkel said inflation fears were overemphasised and described the increases in the consumer price and producer price indices in March as aberrations.

THE LEX COLUMN

An index of self-interest

When the chief executives of Salomon and Morgan Stanley feel it is necessary to issue long press releases explaining why they are abstaining from a trading activity which generated less than $3m per firm in first quarter revenues, it is easy to dismiss the affair as a mere publicity exercise. However, this is almost certainly putting too simple a gloss on a trading activity – stock index arbitrage – the wisdom of which has caused deep divisions within Wall Street.



The official line of Salomon et al is that stock index arbitrage trading – one of the most important types of programme trading – has attracted an undue amount of paranoia in the search for clues as to whether last October's Black Monday will ever be repeated. By deciding to suspend, for the moment, index arbitrage trading for their own account, these firms are hoping that the search for a scapegoat will move elsewhere. Indeed, yesterday's statements were so worded that it leaves them scope to creep back into the business in a few months' time when all the fuss has died down.

However, there is considerably more self-interest involved than seems apparent at first sight. While the debate about the effects of programme trading will rumble on for a long time, its very existence has frightened away investors, and this has taken a heavy toll on trading volume. Salomon and Morgan Stanley must have realised that their high-powered trading practices were frightening away their traditional clientele.

Rowntree

One cannot be sure, but it looks as if the political tide is turning against a Rowntree referral. If so, the market may start to think again about treating the Nestlé bid price of 900.5p as a ceiling. Three things might justify a higher price: an increased bid from Nestlé to gain acceptance, a counterbid from Suchard, or the intervention of a third party.

As to the first, there seems no reason to doubt Nestlé's claim that hostile bids are still alien to its culture. The second is trickier: if Nestlé is cleared to proceed, Suchard has the straight choice of counterbidding, or selling out at a profit of £100m or so. Hanging on as an oppressed minority is not an option: Nestlé would certainly not allow Suchard board representation, and would not even be obliged to pay it dividends on the £500m which it has tied up in Rowntree shares.

Outside intervention is surely less likely by now. Talk of a Cadbury bid, in particular, looks like a smokescreen. For the Government to convert at one swoop to a pan-European competition policy would be rather a transparent dodge at this stage, and it is in any case questionable whether Cadbury could afford Rowntree; the goodwill resulting from a cash takeover would blow a hole in shareholders' funds, and a paper merger would doubtless be opposed by General Cinema.

It seems clear, though, that Nestlé cannot use the present uncertainty to increase its stake indefinitely. It cannot go above 30 per cent until the first closing date for the offer, which is more than three weeks away. If the Government has not made its position clear by that time, it will deserve everything it gets.

Amstrad

Yesterday's news from Amstrad had something in it for everyone. For those who ascribe to the conventional wisdom that the company is worth no more nor less than the prospects for its latest product, there was the camcorder – a cheap and simple idea whose time has come. And for those crippled by techno-fear, a new design video recorder dubbed the anti-idiot transmitter; Amstrad chairman Alan Sugar may not suffer fools gladly, but this does not stop him from seeing their commercial potential.

However, to become a truly major force in the European consumer electronics market, Amstrad needs to lead with its image rather than with its products; and yesterday's reorganisation aims to give the company a neater profile. Henceforth there will be Fidelity for the masses, Amstrad for the corporate customer and Sinclair for everything in between – a textbook case of sensible product differentiation, though the consumer appeal of the Fidelity name is certainly worth no more than the £3m Amstrad paid for it.

The costs of getting this idea across to the consumer may outweigh the benefits in the short term. But by next year everything should be beginning to come together: profits from the camcorder and other new products, an increased contribution from continental Europe (especially West Germany) and surprisingly, a stronger than expected performance from UK home computers. The shares have been strong in relative terms lately, but they could have further to go.

Sears

The market seems determined to teach Sears a lesson about its accounting policies. The five per cent fall in the company's share price yesterday was the result not of disappointment at the size of its profits, but of disapproval at the use of unspecified property gains to swell profits from selling shoes. If Sears feels aggrieved that genuine progress made last year in updating its shoe chains has gone unheeded in the City, it should do what every other big retailer now does, and present transparent figures so that the market can judge for itself how good the real advance has been.

It should also do something about the £10.7m of "other income and exceptional items", which serves as a home for everything from higher pension contributions to surplus on sale and leaseback deals. If Sears were to put this item below the line, it would gain the moral victory now being claimed by the analysts.

With changed accounting, Sears could expect a rating in line with the stores sector, rather than the 8 per cent discount that the market deems fitting. The new management slowly seems to be making its mark: by selling Lewis's and Butler it has lost its worst performing assets, while its bid for Freeman's shows that it is prepared to be aggressive if need be. The company has every incentive to perform: while the Al Fayeds may not present the immediate threat of Holmes à Court, any lasting signs that Sears is displeasing its investors would make it a favourite bid target again.

Ports blocked as P&O talks at standstill

BY JIMMY BURNS IN LONDON AND GEORGE GRAHAM IN PARIS

THE blockade of ports by lorry drivers on both side of the Channel spread yesterday as P&O European Ferries rebuffed an attempt to break the deadlock in its 15-week-old dispute with the National Union of Seamen.

P&O said there was no purpose in further discussions with the NUS over its attempt to re-start cross-Channel services and withdraw recognition from the union. The blockade was, meanwhile, extended to to Dover, Calais, Ostend and Dunkirk.

Mr Jim Slater, NUS President, said the company's response would only strengthen the determination of the union's members to step up pressure on P&O. He described its rebuff of a fresh union approach for talks through the conciliation service Acas as "bloody stupid."

Sequestrators, who now control the union's funds, yesterday paid its £150,000 fine for contempt of court, as a meeting of shop stewards in London last night appeared to be moving towards an agreement with P&O's cross-Channel competitor, Sealink.

Such an agreement could lead to the lifting of the lorry drivers' blockade and moves to purge the union's contempt of court, which was incurred in calling for action against Sealink despite an injunction forbidding it to encourage secondary industrial action.

A settlement between the NUS and Sealink appeared to hinge last night on a number of smaller shipping companies agreeing to reinstate about 200 NUS members who have been sacked or temporarily replaced by foreign crews during the ferry dispute.

In return for a positive response from these employers, the NUS is apparently prepared to endorse the proposal put to the union by Sealink last weekend, under which the company has offered to put two additional ferries on to its Dover-Calais route and to offer temporary employment to 450 extra seamen, most of whom are expected to be drawn from those sacked by P&O.

Sealink said last night that such an agreement with the NUS would guarantee that ferry operations on the busier cross-Channel routes could work near to full capacity, even if there were still no deal involving P&O and the NUS.

However, last night's moves towards a settlement between Sealink and the NUS seemed unlikely to stop further legal action being pursued against the union by two P&O companies, P&O European Transport Services and P&O European Ferries (Felixstowe).

The action, due to be heard in the High Court this morning, relates to an earlier injunction granted to the companies on February 1 because of the union's contempt of court. P&O indicated last night that it expected the High Court to order further heavy fines against the union.

Meanwhile, lorry drivers at Dover voted to continue their blockade of the town's Eastern Dock while the blockade by French drivers spread

"All we want are boats," said Mr Michel Bernard, a spokesman for the French lorry drivers, who have completely blocked the departure of car ferries from Calais, Dieppe, Dunkirk and Boulogne. Only hovercraft services were still functioning freely.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	20	66	Dubrovnik	S	22	72	Malta	S	28	82	Rhodes	S	22	72
Algiers	C	21	70	Edinburgh	S	16	61	Manchester	F	16	61	Rio de J'o	F	28	82
Amsterdam	C	13	55	Faro	S	20	68	Manila	F	36	97	Rome	F	21	70
Athens	S	23	73	Florence	F	23	73	Melbourne	C	15	59	Salzburg	C	15	64
Bahrain	S	36	97	Frankfurt	S	20	68	Mexico City	F	30	87	San Francisco	F	12	54
Bangkok	C	31	88	Funchal	C	18	64	Miami	S	23	73	Seoul	F	21	70
Barcelona	R	18	64	Geneva	C	17	63	Milan	F	22	72	Singapore	T	30	86
Beirut	C	25	77	Gibraltar	F	19	66	Montreal	F	13	55	Stockholm	S	13	55
Belfast	S	16	61	Glasgow	F	16	61	Moscow	F	15	59	Strasbourg	F	20	68
Belgrade	F	22	72	Guernsey	C	12	54	Munich	F	19	66	Sydney	S	20	68
Berlin	S	16	61	Helsinki	S	15	59	Nairobi	F	23	73	Taipei	F	27	81
Biarritz	C	12	54	H. Kong	C	30	86	Naples	F	22	72	Tangier	F	20	68
Bombay	C	33	91	Innsbruck	C	17	63	Nassau	C	27	80	Tel Aviv	S	26	79
Bordeaux	D	14	57	Inverness	C	15	59	New Delhi	S	39	102	Tenerife	F	21	70
Brussels	R	11	52	Islamabad	F	37	99	New York	C	12	54	Tokyo	F	18	64
Budapest	F	19	66	Istanbul	F	18	64	Nice	F	19	66	Toronto	F	14	57
B. Aires	C	20	68	Jakarta	R	34	93	Nicosia	F	28	82	Tunis	S	25	77
Cairo	S	34	93	Jersey	C	12	54	Oporto	S	18	64	Valencia	R	17	63
Cape Town	S	29	84	Jo'burg	F	18	65	Oslo	F	13	55	Venice	S	23	73
Caracas	C	27	81	Lima	F	24	75	Paris	C	13	55	Vienna	S	17	63
Casablanca	C	19	66	Lisbon	S	19	66	Peking	S	27	81	Warsaw	F	11	52
Chicago	C	13	55	London	C	13	55	Prague	S	16	61	Washington	C	17	63
Cologne	F	20	68	Los Angeles	F	14	57	Reykjavik	C	5	41	Zurich	C	17	63
Copenhagen	S	12	54	Luxembourg	C	17	63								
Corfu	S	24	75	Madrid	F	17	63								
Dallas	-	-	-	Majorca	F	21	70								
Dublin	S	17	63	Malaga	F	19	66								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

INF timetable setback

Continued from Page 1

treaty. The Soviet Union wants to limit US inspection to containers carrying complete missiles while the US claims the right to examine containers carrying one stage of a missile.

On his arrival in Geneva yesterday the Soviet Foreign Minister said he was "not quite clear" what the US Senate's difficulties were. The Soviet Union had answered requests for clarification from Washington and believed all the INF verification problems had been resolved.

Mr Shevardnadze, confirming doubts voiced earlier by US officials, said it would be "very difficult" to have a treaty on strategic nuclear weapons (Start) ready for signature at the Moscow summit.

Mr Reagan and Mr Gorbachev had set this objective in December but the Start talks in Geneva, aiming at a 50 per cent cut in long-range missiles, have become snarled in a swathe of problems.

These include Soviet persistence in linking agreement on strategic weapons with guarantees by both sides to continue compliance with the 1972 Anti-Ballistic Missile treaty for a given number of years, thus precluding US development of space weapons.

Warner set to buy Lorimar

Continued from Page 1

grammes to the three television networks and independent stations. But under Mr Merv Adelson, who will move to Warner as vice chairman, the company made unsteady ventures into feature films and such diverse businesses as advertising.

The deal, which will give Lorimar stockholders 0.415 of a Warner share for each of their shares, is the latest sign of the increasing dominance of Hollywood by the big studios.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday May 11 1988

WARNING AGAINST ERECTING BARRIERS TO FOREIGN INVESTMENT IN BRITAIN

UK resists Rowntree inquiry call

BY PETER RIDDELL AND DAVID WALLER IN LONDON

THE UK Government yesterday gave a cool response to widespread calls in Parliament that the £2.1bn ($3.8m) bid by Nestle', the Swiss food group, for Rowntree, the York-based chocolate company, should be referred to the Monopolies and Mergers Commission.

Mr Kenneth Clarke, the Industry Minister, said the Government was awaiting a report from the Office of Fair Trading - the UK trade watchdog - but, in reply to repeated questions, he dismissed most of the arguments made by MPs from both sides favouring a reference to the MMC. He warned against erecting barriers against foreign investment in Britain.

His remarks followed a Department of Trade and Industry announcement that the 17.7 per cent holding in the other main British owned chocolate group, Cadbury Schweppes, which has been built up by General Cinema of the US would not be referred.

Cadbury said later it had had no notification of the investigation and had not been invited to put its case.

The possibility of a deal involving both Rowntree and Cadbury has been raised following a speech yesterday by Mr John MacGregor, the Minister of Agriculture, whose department is responsible for the food industry. Without naming either company he said UK competition policy would take increasing account of the wider European community scene.

"In many markets, particularly for goods which can be traded easily across national frontiers, a merger may create a situation in which there are only one or two major UK suppliers which have a very high share of the UK market and yet which do not pose a serious threat to competition because of the potential competition from imports. This is fully recognised."

If there was "effective competition with products from the rest of Europe it does not matter if there is only one UK supplier because that supplier does face effective competition."

This follows a call last week by Sir Adrian Cadbury, the chairman of the food and drinks group, for a redefinition of the market for competition purposes to take account of the single European market of 1992.

While these remarks appeared to be a broad hint that Cadbury was contemplating a defensive merger with Rowntree, Mr David Nash, Cadbury's finance director, has persistently refused to comment on whether meetings between both parties have taken place. Last night, he declined to comment on the implications of Mr MacGregor's speech. Cadbury shares jumped 18p to close at 336p yesterday.

Most MPs supported Rowntree and several urged that the decision should be speeded up to end uncertainty.

MPs took Mr Clarke's remarks as a strong indication that the Rowntree bid would not be referred. However, Rowntree's shares gained only 2p to 905p yesterday, 4½p above the value of Nestlé's offer if dividends are taken into account.

Lebow to offer rescue plan for Allegheny

By Our Financial Staff

MR BENNETT S. LEBOW, the US entrepreneur, yesterday emerged with a rescue plan for Allegheny International, the US consumer products concern which in February filed for protection from creditors under Chapter 11 of the US Bankruptcy Code.

Mr Lebow, chairman of Lebow Industries, said he agreed to work with the "official committee of equity security holders of Allegheny International to formulate and provide cash funding for a plan of reorganisation in which Lebow would gain control of Allegheny."

Allegheny filed under Chapter 11 after the combination of management problems, a corporate perks scandal and the debts from the 1981 purchase of household appliance maker, Sunbeam, sent the company into decline in the mid-1980s.

No details were available about Mr Lebow's intentions, but he said that any plans submitted by him would include the receipt by Allegheny's shareholders of value in excess of the current share price, ($8⅜ at Monday's close).

Mr Lebow added that Spear, Leeds & Kellogg, a US investment bank which is a member of the equity committee, had granted an option on some of its Allegheny shares to an entity controlled by Lebow as an inducement to proceed with his proposal.

Last week, Allegheny's board urged its shareholders to oppose Spear, Leeds' attempt to gain control of the board at the annual meeting on May 20.

Spear, Leeds is leading a group of dissident preferred shareholders in a bid to gain seven of the board's 13 seats.

Mr Lebow said any plan would need approval by Allegheny's board, shareholders, creditors and the court.

Stephen Fidler on developments at Credit Suisse First Boston

A time to redivide the spoils

CHANGE IS in the air at Crédit Suisse First Boston, the dominant force in the London-based international securities market *for much of the decade.*

More respected than loved by its competitors, CSFB has built a formidable reputation since it was created 10 years ago as a joint venture between First Boston, the New York-based investment house, and Crédit Suisse, the Swiss universal bank.

Crédit Suisse owns 60 per cent, and First Boston 40 per cent of CSFB. Complicating their relationship is CSFB's 40 per cent stake in First Boston, the other 60 per cent of which is held by employees and the public.

In the 1980s, CSFB was the top lead manager of Eurobonds year after year, until it was toppled last year from that position by Nomura Securities, the Japanese firm. More significantly perhaps, it has built a reputation for catching on to new products quicker than its competitors. With an apparent extraordinary ability to place securities with investors, CSFB has, in a business where many found it hard to make money, made a lot of money.

Much of the credit for the growth of the firm is laid at the door of Mr Hans-Jörg Rudloff, a 47-year-old German who is now general manager of Crédit Suisse in Zurich and depnty *chairman of CSFB.*

Hans-Jorg Rudloff: seen as a dealmaker extraordinaire

He is regarded as an extraordinary dealmaker, and a man who instils a combination of loyalty and fear into those who work for him. Tireless and with an apparent love for the intrigue that is part and parcel of the Eurobond market, Mr Rudloff's reputation has, at least in the securities markets, overshadowed that of Mr Jack Hennessy, CSFB chairman

When the stock markets were booming, for example, CSFB led the way in bringing a spate of highly profitable convertible Eurobonds. It pioneered the so-called Euroequity market – the placing of shares among international investors. As first in these markets, CSFB reaped the benefits before other firms jumped on the bandwagon.

Yet, its prime position was not enough to insulate it from the problems of 1987. There was clearly overcapacity in the Eurobond market, with commissions being beaten down to levels which made it barely profitable to launch bonds.

Weakness in the bond and floating rate note markets in the early part of 1987 was followed by the worldwide crash of equity markets in October. This halted almost entirely CSFB's profitable business in convbertibles and Euroequity.

Since then, CSFB has given the impression of being an organisation wondering what is going to be its next move. Like many of its counterparts, it has reduced staffing levels in London, although insiders say by nowhere near as many people as suggested by rumours, which put the jobs losses at close to 300.

As CSFB reported a drop earnings for 1987, stories began to emerge of a growing dissatisfaction about its relationship with First Boston. CSFB, responsible for international business, was providing more business to First Boston than was being returned. With First Boston weakened by defections and dissent in the ranks, it seems as if the European side of the partnership felt it was time to act to redivide the spoils.

Amstrad to launch new video model

By David Thomas in London

AMSTRAD, the UK personal computer and word processor group, yesterday launched a new video camera model which undercuts the price of most existing British ranges.

The company also announced an extensive re-organisation made possible by its acquisition of the brand name Fidelity. The exit from manufacturing of Fidelity, the last British-owned television maker, was disclosed last week.

All Amstrad's audio and video products, including those sold in continental Europe, will now be handled by a new leisure division and carry the Fidelity name, for which Amstrad paid Caparo Industries £3.1m ($5.5m) in cash.

Amstrad's camcorder, which will go on sale in September, will cost £499 including VAT. In a recent survey, BIS Mackintosh, the market research organisation, found no major camcorder selling for less than £599.

US computer companies split by AT&T plan to develop Unix

BY LOUISE KEHOE IN SAN FRANCISCO

A COMPUTER industry row is brewing over the future of Unix, a widely-used computer operating system originally developed by AT&T, the US telecommunications group.

Several leading US computer manufacturers, including IBM, Digital Equipment and Hewlett-Packard, are involved in discussions about their common dissatisfaction with AT&T's plan to develop a "unified" version of Unix as part of a joint development with Sun Microsystems.

The companies have yet to reach a consensus on any action, but are thought to be considering the formation of an industry standards group that could develop its own "rebel" version of Unix.

With Sun, AT&T's aim is to develop a common form of Unix that would iron out the differences between several versions of the operating system now in use. AT&T hopes to see the new version adopted as an industry-wide standard, enabling computers from several manufacturers to communicate openly and run the same software programs.

The AT&T-Sun alliance has, however, sparked protests from several leading computer companies that have adopted Unix. Hewlett-Packard, one of the most vocal opponents of the arrangement and a leading supplier of Unix computers, claims that Sun, as the principal contributor to the development of the new version of Unix, will gain a competitive advantage.

"We should not be forced to accept what appears to be an AT&T- and Sun-dictated version of Unix," said HP yesterday. The alliance gives Sun a six- to 12-month lead over other Unix users, HP calculates.

Public and private assurances offered by AT&T over the past few months that Unix will remain an "open" system and that all licensees will have equal access to the new version of Unix have done little to quell industry fears.

Discussions between AT&T and the "Unix rebels" are continuing and there is some hope that AT&T will acquiesce to their demands for an input into the development of the new unified Unix. To date, however, AT&T has declined all such requests.

Analysts said that any plan to develop a "rebel" version of Unix would have serious consequences for the computer industry. Some questioned the motives of IBM and Digital, both of which have strong bases of proprietary computer operating systems.

● Digital has reached a technology exchange agreement with Compaq Computer under which the two computer manufacturers will exchange product specifications to ensure that Compaq's personal computers can communicate with Digital minicomputers.

Earnings fall to $23.9m at The Limited

BY JAMES BUCHAN IN NEW YORK

THE LIMITED, the Columbus, Ohio store group which revolutionised the mass selling of women's clothes in the US, saw its earnings halve in the first quarter of this year because of a slowdown in womenswear retailing.

The company, which was one of the fastest-growing US speciality retailers in the first half of the 1980s, said earnings fell to $23.9m or 13 cents a share in the first quarter of this year from $45.5m or 24 cents.

Sales, which have grown at more than 25 per cent a year since 1980, rose only 1 per cent in the first quarter to $811.1m.

Wall Street and the New York clothes trade remain perplexed by the collapse in demand for womens' wear since the middle of last year.

Some analysts blame the lack of a clear fashion trend. But Ms Michelle Davis, an analyst at Oppenheimer on Wall Street, said: "Women don't need to buy clothes. There's been excessive spending on women's apparel in the past five years and we may have to adjust to lower levels."

Mr Leslie Wexner, who created The Limited from a single family store in Columbus, said yesterday that the company had been expecting slow business in the first quarter of this year. "We positioned the business in anticipation of slower traffic, consumer uncertainty and changing fashion trends."

Henkel sees a further expansion in earnings

By Our Financial Staff

HENKEL, THE West German speciality chemicals and detergents group, expects profits to continue to expand this year following an increase from DM226m to DM292m ($174.8m) after tax for 1987.

Group earnings in 1988 would grow at a rate in excess of the upturn in sales, which were set to rise by between 6 per cent and 9 per cent, Mr Helmut Sihler, managing board chairman said.

He declined to give a specific profit forecast but said that sales for the first four months had improved by about 13 per cent to DM3.3bn. Total 1987 turnover was DM9.3bn, up from DM8.7bn.

Henkel was still on the lookout for acquisitions after buying companies in the US, France and Britain last year, but declined to give details. Mr Sihler said the group still planned to expand its cosmetics side but had not uncovered any suitable candidates so far.

On Lesieur-Cotelle, the French washing liquids and detergents joint venture planned with Colgate-Palmolive of the US, Mr Sihler confirmed that the venture would not go ahead.

He said the French authorities would not allow the two companies to own half each of Cotelle since they already had a joint share of almost 80 per cent of the French household detergents market.

Henkel would take over Cotelle's household cleaning and washing-up products, while Colgate would get its detergent and bleaching range. Henkel would get about DM180m a year in turnover from Cotelle.

Under the agreement to break up the planned venture, Colgate would get two of Cotelle's three production plants and Henkel the remaining one. The future of Cotelle's research centre was still not decided, Henkel said.

BASF makes good start with sales and profit rise

BY ANDREW FISHER IN LUDWIGSHAFEN

BASF, the West German chemical concern, has made a vigorous start to 1988 with group sales and pre-tax profits both showing gains of 7.5 per cent in the first quarter, Mr Hans Albers, the chairman, said.

Whilst unwilling at this stage to forecast the result for the full year, he said the order position up to the summer was favourable. He hoped the 1988 result would "connect smoothly" with that of last year, which benefitted from an upturn in the second six months.

BASF has already announced 1987 group sales of DM40.2bn ($24bn), down by 0.6 per cent, and pre-tax profits of DM2.6bn, a decline of 1.5 per cent. At the net level, however, there was a 15.5 per cent jump to DM1.05bn, the result of a lower tax charge. The dividend is being held at DM10.

The strong performance in the first three months of 1988 stemmed mainly from higher volume sales, with superior growth rates achieved abroad rather than at home. Group pre-tax profits in the January-March period totalled DM720m (DM670m) on turnover of DM10.5bn (DM9.8bn). "There are no signs of business falling off," the group said.

Hans Albers: "no signs of business falling off"

BASF, which said its chemicals, plastics, dyestuffs and finishing products had experienced especially favourable demand, is the second of the big three German chemical groups to report a sharply improved first quarter. Last week, Hoechst said its pre-tax profits were 12 per cent higher. Bayer will report later this week.

Mr Albers said that in some sectors, BASF's only problem was capacity bottlenecks. In its two main German problem areas, the Wintershall energy subsidiary and the Kali und Salz potash and fertiliser operation, restructuring efforts were having an effect. Wintershall lost DM14m before tax last year and Kali und Salz DM47m.

Describing BASF's strengthening financial position, despite the large acquisitions of recent years, Mr Ronaldo Schmitz, finance director, said its net cash position amounted to DM2.6bn at the end of 1987, with borrowings of DM2.4bn (a 20 per cent fall on the year) compared with liquidity of almost DM5bn (a rise of 20 per cent.)

In the US, sales of BASF Corporation last year were 14 per cent higher at $4.3bn, with net income up by 19 per cent to $131m. But when translated into the higher D-Mark, US sales were 6 per cent lower, Mr Schmitz said.

Total sales last year would have been DM2.3bn more if the German currency had not strengthened. Two-thirds of BASF's sales are outside Germany, with about half of its foreign business stemming from products manufactured abroad.

De Benedetti secures publishing concern

BY ALAN FRIEDMAN IN MILAN

A COALITION of shareholders led by Mr Carlo De Benedetti yesterday secured control of Arnaldo Mondadori Editore, one of Italy's biggest publishing and media concerns. The victory came at Mondadori's annual shareholders' meeting in Milan.

The outcome, which gives the Italian entrepreneur and his allies 12 seats on the 15-member Mondadori board of directors, comes after a bitter war of words that has seen the Mondadori family sharply divided and Mr De Benedetti attacked repeatedly by Mr Leonardo Mondadori, grandson of the founder.

The struggle has been open since Mr Mario Formenton, chairman of Mondadori, died 14 months ago. Since then Mr Formenton's widow, Cristina Mondadori, has given her support to Mr De Benedetti. Mrs Mondadori and Mr De Benedetti control the book, newspaper and magazine publisher through their joint 51 per cent holding in Amef, a financial vehicle that in turn owns 50.3 per cent of Mondadori.

The losing side, apart from Mr Leonardo Mondadori, includes Mr Silvio Berlusconi, the private television entrepreneur. Among Mr De Benedetti's allies are Mr Leopoldo Pirelli of tyre fame and Mr Jody Vender, a leading Milan investment banker.

Mondadori owns 50 per cent of La Repubblica, the popular Rome newspaper. The Mondadori group last year made a L101.3bn ($80.8m) net profit on L1,331.7bn of turnover.

The Mondadori victory, which may yet be challenged in the courts by Mr Leonardo Mondadori, comes less than a fortnight after Mr De Benedetti and another coalition of shareholders won control of Credito Romagnolo, Italy's second biggest private bank.

Yesterday's events also imply a certain symmetry between Mr De Benedetti and Mr Gianni Agnelli, the Fiat chairman who is his traditional rival. Both the De Benedetti and Agnelli groups now own indirect but influential stakes in Italy's two biggest publishers. Fiat owns a key stake in Gemina, a financial vehicle that controls Rizzoli, as well as indirect but influential stakes in private banking. Gemina is also a prominent shareholder in Nuovo Banco Ambrosiano.

Skandia still hopes for controlling stake in Vesta

BY SARA WEBB IN STOCKHOLM

SKANDIA, the leading Swedish insurance group which is trying to secure a controlling stake in Vesta, the second largest Norwegian insurance company, said yesterday that it would not give up hope of acquiring a shareholding despite moves by the Norwegian authorities to block the deal.

Skandia announced in March that it had agreed to buy 25 per cent of Vesta for NKr476m and that Vesta would issue a convertible bond allowing Skandia to increase its shareholding to 50 per cent within two years.

The NKr1.1bn ($178.8m) deal was part of a wider plan by Skandia and Skandia International, its international reinsurance group, to create a Nordic insurance group so that it is better equipped to meet competition from other insurance companies after the formation of the EC internal market.

However, the Norwegian parliamentary finance committee has since recommended that foreign ownership of Norwegian insurance companies should be reduced from 20 per cent to 15 per cent, which would effectively stop the deal.

Mr Bjoern Wolrath, managing director of Skandia, said he still hoped that the Norwegian Government would give Skandia "special permission" to pursue its goal.

A foreign investor may own more than 50 per cent of a small Norwegian company, Mr Wolrath said, and Skandia would now approach the Norwegian Finance Ministry to see whether it could obtain permission to buy over 50 per cent of Vesta in a single deal rather than in two stages as originally proposed.

If the deal does not go ahead, Vesta may have to raise about NKr500m in capital through a new share and convertible bond issue. This is subject to approval at an extraordinary shareholders meeting to be held soon.

The company has shown a poor earnings performance in recent years with an operating loss (before provisions) of NKr172.5m in 1987.

Dutch insurer in talks about joint ventures

By Our Financial Staff

STAD ROTTERDAM, the Dutch insurance group, is discussing the formation of joint ventures with other European financial institutions.

Mr Luck van Leeuwen, board chairman, said yesterday: "In principle we are interested in takeovers and we have approached other companies in the field of financial services." Stad is talking to one Belgian and one West German company about life insurance ventures.

He declined to give further details on the talks, but added: "In six months from now, we will let you know more." Mr Van Leeuwen said the companies involved were similar to the Dutch insurer in terms of market share, premium income and balance total.

Last year, Stad Rotterdam's balance sheet totalled Fl 6bn ($3.19bn) while premium income in 1987 rose by 10 per cent to Fl 1.28bn. Net profits for the year totalled Fl 56m.

Finsider in liquidation

BY OUR FINANCIAL STAFF

FINSIDER, the Italian state-owned steel company, was put into voluntary liquidation yesterday as part of a complex restructuring aimed at rescuing the troubled state steel sector.

Finsider, which is 99.6 per cent owned by IRI, the state holding company, was placed under management of five liquidators, who will supervise the sale of assets and the repayment of debts to creditors.

The company's borrowings exceed L10,000bn ($8bn). For 1987 Finsider's turnover totalled L11,000bn.

Following government approval of the plan, several of Finsider's profitable units will be transferred to a new company, Ilva. Loss-makers will either be closed or sold.

The voluntary liquidation is the first step in what is seen as a highly controversial process. The unions are strongly opposed to the rescue package, which calls for 25,000 job cuts.

At the same time, the European Commission has started an investigation to determine whether the restructuring violates EC subsidy rules.

Resignation at Preussag

BY DAVID GOODHART IN BONN

PREUSSAG, the struggling West German metals group, yesterday announced the resignation of Mr Gunther Sassmannshausen, its chief executive, after revealing that it was holding its dividend for the second year running.

No explanation for the departure of Mr Sassmannshausen was given, but it is thought he will be replaced by Mr Erwin Muller, the finance director, who is expected to be confirmed in office at the next supervisory board meeting on June 30.

Meanwhile, Preussag sounded a slightly more optimistic note in delivering its 1987 results. Group net profit increased from DM79m to DM102m ($61m), although the parent company merely broke even compared with a profit of DM0.9m in the previous year.

Mr Sassmannshausen, aged 57, had more than four years of his contract to run.

INTERNATIONAL COMPANIES AND FINANCE

Richard Gourlay on the Philippine brewer caught in a legal deadlock

San Miguel in battle with the state

AGAINST ALL the worst predictions, San Miguel, the largest industrial company in the Philippines, has not only survived a year with government-appointed directors controlling its board, but has positively blossomed.

Sales of the beer-based conglomerate last year grew by 31 per cent to 16bn pesos ($797.7m) and net profits leapt by 58 per cent to 1.76bn pesos. The company reported yesterday that its beer sales have grown by 50 per cent in the first quarter of 1988, and the board approved a 15 per cent stock dividend.

However, the sequestration of a 51 per cent stake in the company in May 1986 has led to a bitter boardroom battle for control and pitted San Miguel management against government-appointed directors.

Yesterday, at a marathon shareholders' meeting attended by a packed and noisy crowd, the government directors held back from signing San Miguel's annual report because of a note in the annual report concerning alleged misuse of company funds by the chairman.

Four separate cases are pending with the Supreme Court and the Securites and Exchange Commission, all to do with who should control the sequestered shares – and therefore the company.

Mr Eduardo de los Angeles, one of the nine government directors on the San Miguel board, says there is now a legal deadlock and that a solution is nowhere in sight.

There are two contested blocks of shares. The first, representing 33 per cent of the equity, was sequestered two years ago by the Presidential Commission on Good Government (PCGG). This body has the job of tracking down those assets spirited out of the country during the 20 years that former President Ferdinand Marcos ruled and those skimmed from companies by his associates.

These shares were held by the United Coconut Planters Bank (Cocobank) in trust for the nation's coconut farmers. But the holding was controlled by Mr Eduardo Cojuangco, a loyal friend of Mr Marcos who was also San Miguel's chairman and Cocobank's president until he fled with the former dictator in February 1986.

Mr Cojuangco held the second block, representing 18 per cent of the company, in his own name before it too was sequestered by the PCGG.

Mr Andres Soriano, San Miguel's new chairman and grandson of the company's founder, tried to buy the 33m shares held by Cocobank in March 1986. Cocobank agreed to sell the shares at 100 pesos each - a 300 per cent premium over the then prevailing market price, which would have been the largest share sale in Philippine history.

The purchase was to be funded by the sale of San Miguel's Hong Kong brewery to Anheuser Busch of the US. Hongkong and Shanghai Banking Corporation lent to Neptunia, San Miguel's holding company in Hong Kong which owned the brewery, the US$25m needed for the downpayment.

But before the deal could go through, the PCGG halted the sale, suspecting the proceeds would go to Mr Cojuangco. It lifted the freeze order when this rumour died down and then sequestered the shares a second time, after minority shareholders claimed Mr Soriano was selling company assets to increase his family's stake in the company.

In a petition before an SEC hearing, the government has claimed that Mr Soriano signed the purchase agreement with Cocobank in March 1986 "for himself and as agent for several persons". The petition also alleged that a Neptunia board resolution, made five days later, said the company could borrow from Hongkong Bank in order to allow the Soriano family to buy the 33m San Miguel shares.

Cocobank claims that Neptunia forfeited its $25m downpayment because the deal fell through, while San Miguel says Cocobank acted in bad faith by holding the deposit after the sequestration.

To add to the controversy, San Miguel assumed the $25m debt of Neptunia, despite the protests of the government-appointed directors. They claimed the minutes of the San Miguel board meeting did not reflect the directors' decision to allow management to "review" the loan.

The result is a plethora of court cases. In the first, before the Supreme Court, San Miguel's management led by Mr Soriano is questioning the PCGG's right to continue voting the sequestered shares. In the other, San Miguel is appealing against a lower court ruling to rescind the sale contract between Cocobank and San Miguel.

If the court in the first case finds in favour of San Miguel, the company will still need PCGG approval to buy back its shares. The second case would allow Cocobank to sell the 33m shares to the highest bidder.

In a separate case before the SEC, the PCGG has demanded that Mr Soriano and his family return the $25m downpayment, plus lost interest, to San Miguel – reference to this prevented the government directors from signing the annual report.

It adds up to a lawyer's dream but, so far, appears to have left San Miguel's business unharmed, despite the management's claim. The impression that San Miguel has tried to keep alive is of a government meddling dangerously with a company that is crucial to the Philippine economy.

The extraordinary growth in sales, however, tends to support Mr de los Angeles' claim that the PCGG is simply on the board to protect San Miguel's assets rather than to interfere.

However, the messy legal deadlock has sucked President Corazon Aquino's government into conflict with its stated policy that the authorities should stay out of business.

THE PHILIPPINE Asset Privatisation Trust (APT) sold 969m pesos ($48.3m) of government-owned, controlled and sequestered companies in the first quarter of this year, Kyodo reports from Manila.

This has raised total sales by the state to 4.8bn pesos, or 53 per cent of government investment in the companies, since the APT was set up in 1986 after President Corazon Aquino said her administration would get out of business.

The Finance Ministry said Mrs Aquino had also approved the disposal of six additional government corporations. This would bring to 109 the number of state-controlled companies on the auction block, with combined assets valued at 71bn pesos at the end of 1986.

Tokyo Electric takes the lead in profits

BY IAN RODGER IN TOKYO

TOKYO ELECTRIC Power, the electric utility serving the Tokyo area, displaced Toyota Motor last year as Japan's biggest profit maker.

The utility's pre-tax profits jumped by 22.6 per cent to Y519.9bn ($4.18bn) last year, thanks to the amplified negative impact on its fuel import bill of the rising yen and falling oil prices. Another big utility, Chubu Electric Power, serving the Nagoya area, jumped three places in the table for similar reasons, according to Tokyo Shoko Research, a private institute which prepared the figures on a calendar year basis.

Toyota, and other export-oriented groups, slipped in the rankings because of the negative impact of the high yen on their export profit margins. Matsushita Electric Industrial, the leading Japanese consumer electronics group, disappeared from the Top 10 after being in tenth spot last year.

Five of the Top 10 last year were financial groups, reflecting Japan's booming equity and property markets and easy money conditions. In ninth place stands Bank of Japan, the country's central bank, which operates formally as a corporate entity.

JAPAN'S CORPORATE TOP TEN

Rank			Pre-tax profits (Ybn)
1	(3)	Tokyo Electric Power	519.9
2	(2)	Nomura Securities	476.4
3	(1)	Toyota Motor	427.5
4	(4)	Nippon Telegraph and Telephone	413.2
5	(8)	Chubu Electric Power	319.4
6	(5)	Kansai Electric Power	318.4
7	(6)	Daiwa Securities	286.3
8	(9)	Nikko Securities	241.7
9	(7)	Bank of Japan	231.0
10	(13)	Fuji Bank	226.2

Source: Tokyo Shoko Research

Earnings doubled at New Straits Times

BY WONG SULONG IN KUALA LUMPUR

NEW STRAITS TIMES, Malaysia's biggest publishing chain, has reversed three years of falling earnings with a 146 per cent increase in pre-tax profits for the six months to February to 22.1m ringgit (US$8.5m).

Turnover rose by 39 per cent to 112m ringgit and profit after tax by 128 per cent to 10.8m ringgit.

NST is controlled by the ruling United Malays National Organisation of Dr Mahathir Mohamad, the Prime Minister. The company is believed to have benefited from the five-month closure of the Star, its English language daily rival, as part of the government security crackdown last October and also gained from improved earnings at its Television Three and Bank of Commerce associates.

It is paying an interim dividend of 8 cents a share on its paid-up capital of 86m shares, compared with a previous 9 cents on 68.8m shares.

Meanwhile Faber Merlin, the troubled hotel and property group which is also an associate of NST, which defaulted on the redemption of 17.7m ringgit worth of unsecured loan stocks last October, has announced new terms for loan stockholders.

It proposed to extend the redemption period by another three years to October 1990, and has pledged a 93 acre housing estate in Sabah and a 22-storey office building in Johore Baru as security. The interest remains at 8.75 per cent a year.

Another record year for The AMP

By Chris Sherwell in Sydney

THE AMP Society, Australia's largest insurance and investment group, chalked up another notable year in 1987, despite last October's stock market crash.

The group's annual report shows the market value of its shareholdings and its overall earnings rate both suffered a fall. But the volume of new business, the value of overall assets, and the amount of surplus distributed to policyholders all hit fresh records.

"This was no paradox, but another demonstration, in difficult conditions, of the society's resources at work," said Mr David Anderson, chairman.

The market value of The AMP's shareholdings, including Australian, international and controlled companies, fell to A$10.3bn (US$7.9bn) from A$11.2bn over the year.

Its main No 1 Fund showed a total pre-tax investment return, including capital gains both realised and released from reserves, of 19.5 per cent. This compares with a figure of 20 per cent reported for 1986.

Against these declines, new premiums and superannuation contributions soared by 99 per cent to a record A$2.7bn, while total income from premiums, investments, and other sources before tax was A$6.6bn. Premium income alone was A$3.6bn, up 49 per cent.

Total assets increased by A$2.1bn to A$25.1bn. The asset revaluation reserve stood at A$3.1bn, slightly less than the 1986 figure.

Because of the general decline in interest rates during the year, holdings of fixed-interest securities also showed an increase in value and continued firm demand for property ensured strong returns for the A$6.2bn property portfolio.

The society said it would distribute a record A$654m of the 1987 surplus from the No 1 Fund's operations. It added that the rate of bonus for most types of policy was at least as high as in 1986.

Total payments to policyholders because of death, disability and maturity benefits amounted to A$711m, some 23 per cent higher than in 1986.

SIA in talks on Raffles Hotel

SINGAPORE AIRLINES (SIA), the island's flag carrier, said yesterday it was negotiating to buy a stake in Raffles Hotel, Reuter reports from Singapore.

It said it was talking to the hotel company as well as Overseas-Chinese Banking Corporation and DBS Land, a subsidiary of Development Bank of Singapore but added: "We are still at the initial stages." The 102-year-old hotel is undergoing a S$55m (US$27.4m) restoration programme.

Richard Waters on the effects of accounting changes in the US

Banks lose out on asset ruling

NEW TAX accounting rules introduced by some of the largest US companies in the first quarter of this year have produced huge one-off additions to reported income.

Banks, however, face a significant charge to profits as a result of the changes, eating into capital bases already depleted by heavy provisioning last year.

American Express reports that this and another accounting change together knocked $650m off its equity at the end of last year.

And Citicorp, which has yet to adopt the standard, said that the reduction in its net earnings is expected to reduce shareholder's equity by "less than 10 per cent". Based on its 1987 balance sheet, this could lead to a deduction of as much as $880m.

American Express is one of the few institutions to opt to introduce the accounting change by restating its 1987 figures in accordance with the new rules. Others may introduce it at any time over the next year.

Those to move so far include Shell Oil and General Electric. Shell reported a $900m addition to its first-quarter profits as a result of the change. GE, like American Express, chose to restate its 1987 figures to reflect the one-off change, adding $858m to its previously-reported 1987 income.

These adjustments are caused by a new method of measuring a company's future liability to pay tax. Any *difference between the* value of assets for accounting purposes and their tax value reflects an implicit profit or loss, according to the Financial Accounting Standards Board in a statement issued at the end of last year (FAS 96).

For instance, an asset may qualify for an accelerated writing-down allowance for tax purposes, but be depreciated in a company's accounts at a slower rate. The difference between the two values represents an implicit profit and tax on this must be provided for, says the new rule.

The 1986 Tax Reform Act, by bringing the rate of corporation tax down from 46 per cent to 34 per cent, reduces the liability and so produces one-off improvements for many companies.

Banks find themselves in the opposite position. Loans written down for accounting but not tax purposes imply a deferred tax asset, rather than a liability.

Harsh restrictions

However, their ability to recognise these assets is severely restricted: companies are not allowed to assume that they will earn profits in the future against which to set their losses. This means that deferred tax assets are frequently not shown, and reported equity is reduced accordingly.

Banks claim that restrictions put on when they can recognise assets are unduly harsh, and prevent them reporting their full financial strength. Insurance companies, also caught by the asset recognition restrictions, have also been critical.

"I wouldn't call it harsh, but it's certainly rigorous," said Mr James Leisenring, director of research at the FASB. "You don't find assets which depend on future net earnings anywhere else in the balance sheet."

Many companies that could benefit from the accounting change are delaying implementing it in case tax rates rise. For instance Shell, while it has not fully calculated the sensitivity of its earnings to changes in tax rates, says that a 2 per cent increase could take $200m off profits.

"A lot of companies don't want to get the income pick-up now and see it taken away again," said Mr Lou Levy, vice chairman of professional standards at accountants Peat Marwick Main.

Also, while the initial one-off gain is treated as an extraordinary item, and is discounted by analysts, future changes will be taken above the line and affect pre-tax profits.

Companies fear that this will make their reported earnings in future years volatile, making comparison difficult from one year to the next.

"To what extent the analysts will understand, I just do not know," said Mr Max Holworth, assistant vice president of accounting at Shell Oil in Houston.

Asked whether analysts understand the implications of the changes, Mr Leisenring said: "It is our impression that they do not yet." But the new system is more logical than the old one and therefore easier to explain, he said.

Digesting the new accounting rules, which are widely seen as the most complex to emerge from the FASB for a long time, is a problem for more than just analysts. Mr Lou Testoni, a partner with accountants Coopers & Lybrand in New York, says keeping up to date with the rules and answering problems from elsewhere in the firm has kept him busy almost full-time.

Extra work

Others are outspoken about the vast amount of work that has to be done to calculate the new tax liabilities or assets.

An example of the extra work is the unusual requirement for companies to take advantage of any tax-planning opportunities open to them. This is designed to prevent them from putting off to future accounting periods benefits that they could recognise immediately.

This rule effectively forces companies to examine all possible tax planning strategies, or risk falling foul of regulators, claim some companies and accounting firms. This could subject them to a huge amount of work.

This rule "has people confused," acknowledges Mr Leisenring. The FASB is to issue guidance on bow exhaustive companies must be in their tax planning. But it is already clear, says Mr Leisenring, that "yon can't ignore obvious strategies."

Nomura and Daiwa keep gilts powder dry

By Stefan Wagstyl in Tokyo

NOMURA AND DAIWA, the two largest Japanese securities companies, which have been blocked by the British Government from becoming market-makers in the UK government bond market, yesterday studiously avoided turning the issue into a full-scale international financial row.

Both companies reacted quietly to the British decision. Nomura's head office said its view of the move was "neutral". "We have no comment ... You suffer big losses as well as making profits in the gilts market."

Daiwa said it expected an early political settlement of the issue by the British and Japanese governments. "We can do nothing except wait."

Diplomats do not foresee a flare-up on the scale of last year's over British demands for more seats for UK companies on the Tokyo Stock Exchange. However, an immediate solution is not in sight to the major outstanding point between the two countries – the continued exclusion from membership of the stock exchange of Barclays de Zoete Wedd, the securities affiliate of Barclays Bank, and James Capel, the UK subsidiary of Hongkong and Shanghai Bank, which missed out when four other UK companies were eventually awarded seats on the enlarged exchange last December.

The issue was raised by Lord Young, the British Trade and Industry Secretary, during a recent visit to Tokyo and by Sir Geoffrey Littler, a senior UK Treasury official. Japan argues that there is no more space to admit more members.

Meanwhile, there are signs that the Japanese Ministry of Finance may be close to responding to demands from US companies for greater access to the Japanese government bond market.

Nihon Keizai Shimbun, the leading economic daily, reported that the ministry was considering doubling from June the foreign companies' share of underwriting issues of 10-year bonds from 2.5 per cent of the total to 5 per cent.

The ministry said no decision had yet been made. Officials were awaiting estimates from the US on the size of market share American companies thought would be reasonable.

Leader: Page 22

Primary sterling sector nudged back into life

BY DOMINIQUE JACKSON

STERLING'S renewed popularity nudged the primary Eurosterling market back into activity yesterday and two new Canadian dollar deals were also launched. Secondary markets continued quiet and directionless as the US Treasury refunding auctions continued to command market attention.

Eurodollar bond prices were narrowly mixed in low volume as market operators stuck to the sidelines, awaiting the results of the $8.75bn auction of three-year Treasury notes.

Sentiment was adversely affected by persistent nerves about rising interest rates and dealers said the Federal Reserve's money market operations would be closely monitored for any clear signs of tightening.

Continental bond markets continued in the thrall of US markets with nerves subduing volume. However, West German bond prices saw some technical recovery following Monday's sharp falls. French bonds were also marginally firmer and prices were expected to rally today following the nomination of Mr Michel Rocard as Prime Minister.

The Canadian dollar sector continues to see steady demand from disaffected US dollar investors, particularly Continental retail accounts.

Citicorp Investment Bank led a C$100m three-year deal for the Hong Kong Government's Mass Transit Railway Corporation. The coupon was set at 10 per cent and the deal priced at 101 for a yield margin of 50 basis points at launch over comparable Canadian government bonds. The lead manager said the deal was seeing good demand in the Far East where the borrower has a strong profile. It was bid at a discount of 1.15 against total fees of 1⅞.

Credit Suisse First Boston brought Landesbank Schleswig-Holstein to the market with a five-year C$100m 10½ issue at 101⅛ which was pitched to give a 40 basis point yield premium over domestic government issues at launch. The deal was popular with investors in West Germany but its late launch slowed

INTERNATIONAL BONDS

demand somewhat. The deal was bid at a discount equal to its 1⅞ fees.

CSFB also brought National Mutual Life Association of Australasia to the market for the first time with a five-year £120m issue, pitched at 10 per cent and 100⅞ for a launch spread of 83 basis points over gilts.

Despite the rather brittle market seen over the last few weeks and the remaining overhang of the last bout of new paper some 10 days ago, both Eurosterling and gilts have been boosted by the pound's latest rally and dealers have detected a return of demand for correctly-priced new Eurosterling bonds.

A syndicate manager at a house not involved in the deal said the borrower's attractive rating and the generous spread would ensure good demand.

CSFB also brought Banco di Roma to tha sector with an unusual £75m five-year deal at 101⅝. The deal is through the Law Debenture Corp for the bank's London branch. The coupon is set at 9⅝ for the first three years and thereafter will be set at 10 basis points over the six-month London interbank offered rate. There is a put option after three years at par.

The UK-based subsidiary of Dutch leisure group Center Parks issued a 10-year £60m bond through Morgan Grenfell which is convertible into bearer depositary receipts of the parent which are listed in Amsterdam. The coupon is indicated at 5⅞ to 6 per cent. The proceeds will be used to finance the construction of the company's second UK holiday park near Cambridge.

Nikko Securities led a $300m equity warrant bond for Yamanouchi Pharmaceutical. The coupon on the five-year deal is indicated at 4 to 4½ per cent.

Nomura brought Toronto Dominion to the yen market. The principal on the five-year 5 per cent deal at 101⅝ is redeemable in dollars at a rate of $8.197 for each Y1m bond. The deal is not expected to trade widely.

Swiss bond prices closed steady to a touch weaker on moderate turnover. Japan Finance Corporation for Municipal Enterprises issued a SFr100m 12-year deal at 4⅝ and 100⅞ through Union Bank of Switzerland. Kurogane Kosakusho, the Japanese furniture and household equipment company, issued a five-year SFr20m convertible bond on which the coupon is indicated at % through Royal Trust Bank (Switzerland).

Creditanstalt in Brazilian debt move

By Judy Dempsey in Vienna

CREDITANSTALT-BANKVEREIN, Austria's largest bank, has agreed to set up an investment bank in *Brazil* for *debt-equity* swaps to deal with Brazilian debts to it.

Creditanstalt is to swap some *outstanding* loans *into equity* worth a nominal US$20m. It would hold a 50 per cent share in the bank and receive a 28 per *cent discount on the loans.*

The new bank, whose partners include Mr Bernao Bracher, a former Brazilian Central Bank presi*dent,* will *serve as a commercial* and investment bank and is planning other debt-equity swaps.

Future on Belgian state bonds

BY TIM DICKSON IN BRUSSELS

KREDIETBANK, the major Belgian banking institution, is *launching the first ever Belgian* Government bond futures contract.

The move represents some*thing* of a *gamble* in a *country* not generally familiar with this type of financial instrument. However, a Kredietbank official *said yesterday that such profes*sional and institutional investors as pension funds, mutual funds, and insurance companies were *most likely* to be interested. "It will enable them to protect the market value of their Belgian franc bond holdings and to bene*fit from interest rate fluctua*tions," he explained.

Kredietbank is taking the plunge because of the size of the Belgian bond market – currently around BFr3,400bn of outstanding debt, virtually all of it government-backed – and because of increased price volatility in recent *times. The bank is also* encouraged by evidence of increased liquidity in the secondary market and by the tax rules *which force most institutions* to hang on to their bonds for at least five years.

In contrast with most other *futures contracts, the underlying* asset of a bond future contract is not an existing bond but a theoretical long-term asset. In this case, the "*notional*" bond will be a Belgian Franc government bond with an 8 per cent coupon and a par value (contract unit) of BFr2.5m. To make material deliv*ery possible, 10 listed bonds* will be deliverable against the contract, which will be made fungible by a system of conversion fac*tors (based largely on yield* differentials).

Outstanding positions can be closed easily by trading the same *number of the reverse contract or* by cash settlement, in which case the settlement amount is calculated on the basis of the difference in the trading price and the closing price.

Kredietbank, which will act as contract party with buyers and sellers, says it will continuously quote bid and offer prices for the two closest expiration months.

Eurosterling issue from John Mowlem

By Our Euromarkets Staff

JOHN MOWLEM, the UK construction group, yesterday added its name to the list of borrowers to lock into cheap funding with a £50m Eurosterling bond issue.

The unusually long 25-year maturity suggests that the company feels this could be its last opportunity for some time to achieve such attractive rates.

Mr Brian Watkins, John Mowlem'o finance director, said tha company had been considering the issue for quite a while. The low level and relative stability of yields had encouraged the company to tap the markets now, shortly after reporting a 67 per cent rise in pre-tax profits to £50.2m for 1987. The proceeds of the issue will be used for general corporate purposes.

Kleinwort Benson led the *deal, which was finally priced* at 101.15 with an 11½ per cent coupon for a spread over the comparable gilt stock of 190 basis points at a discount of 1⅞.

Mr Watkins said that John Mowlem, which developed and *owns* the City airport in the London Docklands, could have issued a conventional domestic bond but opted for a London-listed Eurosterling issne instead. This is procedurally simpler, substantially reducing the amount and detail of documentation required by the Stock Exchange.

However, the lead manager said the bonds were expected *to be placed almost wholly in* the hands of UK institutions – ths same investors which would hava snapped up a domestic issue.

UK pension funds and life insurance companies with long-term liabilities are always keen to match these with similarly long term assets and the bond is expected to see good demand.

John Mowlem does not have a very high profile outside the UK and the deal was aimed specifically at domestic institutions to the extent that the lead manager initially approached the investors with a prospective pricing spread before fixing the final terms on the issue.

Venezuelan efforts run into problems

BY JOSEPH MANN IN CARACAS

VENEZUELA'S efforts to launch a series of bond issues overseas have run into problems despite a successful return to the Eurobond market in February, according to international bankers.

While Venezuela's President, Mr Jaime Lusinchi, was on a state visit to Japan in April, Venezuelan officials had hoped Japanese banks would announce the launch of a Republic of Venezuela bond issue for Y10bn. The Japanese, however, decided that the timing was not right.

Bankers say that the Japanese decision may have been influenced by delays in placing a new Eurodollar bond for the Republic. *Chase Manhattan has reportedly found it difficult to sell $100m in* five-year floating-rate notes. Venezuela had wanted to place *$300m through Chase* but the amount was reduced to $100m.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on May 10

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	95	95½	-0⅛	-0⅞	9.06
All Nippon Air 9⅞ 97	100	†94¾	95¼	-0¼	-0½	10.23
American Brands 8¾ 92	150	98⅞	98⅝	+0⅛	-0⅛	9.34
A/S Eksportfinans 7⅝ 93	100	†93⅝	94¼	-0⅛	+0⅛	9.05
A/S Eksportfinans 7¼ 92	150	94⅝	95⅛	-0¼	-0⅛	8.87
Barc. Bk. Fin. 10¾ 89	200	†102¼	102¾	-0⅛	-0½	8.45
Belgium 9¼ 92	400	†100	100½	-0¼	-0⅛	9.03
British Telecom 7⅞ 96	250	88⅝	89⅛	-0⅛	-0⅛	9.60
Cai. Natl. Telecom 8½ 93	260	98⅜	99⅛	-0⅛	-0½	8.78
Canada 9 96	1000	98½	99	-0¼	-0½	9.22
Canadian Pac 10¾ 93	100	†103¾	104¼	-0⅛	-0¼	9.64
C.C.C.E 7¾ 91	113	†95⅛	95⅛	-0¼	-0¼	8.70
C.N.C.A 7¾ 91	150	94⅝	95⅛	-0⅛	-0⅛	8.95
Coca-Cola Ent. 8¾ 90	100	†100½	101	+0⅛	+0⅛	7.84
Credit Lyonnais 9 91	200	100¾	101¼	-0⅛	+0⅛	8.56
Credit National 8¼ 93	200	96½	97	-0⅛	-0⅛	9.09
Credit National 7⅞ 92	100	94¾	95¼	-0⅛	-0⅛	8.93
Credit National 7¼ 91	150	95	95½	-0¼	-0⅛	8.82
Denmark 7¾ 92	500	93¾	94¼	-0⅛	-0⅛	9.12
E.E.C 7 91	100	94⅞	95⅛	-0⅛	-0¼	8.62
E.E.C. 7¼ 93	250	93⅛	93⅞	-0⅛	-0⅛	8.92
E.E.C 8¼ 96	100	†92¾	93⅛	-0⅛	-0⅛	9.54
E.I.B. 7¾ 93	100	93⅝	94⅛	-0⅛	-0½	9.05
E.I.B. 9⅝ 97	150	98⅜	98⅞	-0⅛	-0⅞	9.59
Elec. De France 9 98	200	95⅛	95⅞	-0⅛	-0⅛	9.70
Finland 7⅞ 97	200	89	89⅛	-0⅛	-0⅞	9.77
Finland 7½ 93	200	93¼	93¾	-0⅛	-0¼	9.13
Fin. Exp. Cd. 8¾ 92	200	98¾	99¼	-0⅛	-0⅛	8.80
Ford Motor Credit 8 91	250	97¾	98⅛	0	-0¼	8.80
Gen Elec Credit 10¼ 00	200	101⅞	102⅜	+0⅛	+0⅛	9.97
G.M.A.C. 8 89	250	99½	100	0	0	8.15
G.M.A.C. 8¼ 89	200	99¾	100¼	0	0	8.20
Hoesch 8¼ 97	100	†92⅝	93	-0¼	-0½	9.49
Italy 9 90	1000	101	101½	-0⅛	-0⅛	8.36
L.T.C.B of Japan 8 91	100	98¼	98¾	-0⅛	+0⅛	8.52
L.T.C.B of Japan 8 97	200	88½	89	-0¼	-0¼	9.98
Mercedes-Benz Cd. 8½ 95	100	95¾	96¼	-0⅛	-0⅛	9.31
Metropolis Tokyo 9½ 93	200	101⅛	101⅝	-0¼	-0¼	9.03
Mitsubishi Fin. 7⅞ 93	100	†93⅜	93⅞	-0⅛	+0⅛	9.37
Norway 8¾ 93	500	99	99⅜	-0¼	-0⅛	8.93
Pepsico Inc 7⅞ 93	200	†93¼	93¾	+0⅛	-0⅛	9.08
Portugal 8¼ 91	300	98¼	98½	-0⅛	-0¼	0.95
Prudential Crp. 8⅞ 94	125	99⅝	100	+0⅛	+0⅛	8.79
Qantas Airways 10⅜ 95	140	103¼	103¾	-0¼	-0½	9.69
Saab Scania 9⅝ 91	125	†102	102½	-0¼	-0¼	8.53
Saskatchewan 10¾ 92	100	105⅛	105½	-0¼	-0⅛	9.04
State Bk S Aust 9¼ 93	100	99½	100	-0⅛	-0⅛	9.30
Swedish Expt. Crd. 7¾ 91	100	†95⅛	95⅝	-0¼	-0⅛	8.78
Swed Exp Cred 10 92	100	†103	103⅛	-0⅛	-0¼	9.00
Sweden 7 91	250	95¼	95¾	-0¼	-0¼	8.55
Sweden 7 92	250	†94⅜	94⅞	-0¼	-0¼	8.72
Sweden 8⅞ 96	200	95⅝	96⅛	-0⅛	-0½	9.51
Sweden 8⅛ 92	200	†99⅜	99⅞	0	-0⅛	8.66
Toyota Mtr. Cred. 9 90	200	†101¼	101⅞	-0¼	-0¼	8.35
Victorian Rep 11⅛ 92	150	107¼	108¼	-0¼	-0½	9.13
World Bank 7 92	300	†94⅝	95⅛	-0⅛	-0⅛	8.65
World Bank 9 97	300	97	97½	-0⅛	-0⅛	9.44
Yasuda Trust Fin 8½ 93	100	96⅛	96⅝	0	0	9.38

Average price change... On day -0¼ on week -0⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	102	102½	-0⅛	-0¼	5.55
Aris Fin. SVS 5⅞ 92	100	†101¼	101¾	+0¼	-1½	5.43
Bank of Tokyo 5¾ 93	100	†103¼	103⅝	-0¼	+0⅛	4.94
Central BK. Turkey 7 92	200	†104¼	104⅞	+0¼	0	5.80
Commerzbank o/s. 5⅜ 93	300	†99⅝	100¼	-0¼	-1½	5.37
Degussa Int. 6⅛ 97	200	99⅝	100½	-0¼	-0¼	6.12
E.I.B 5½ 98	150	95¼	96	-0⅞	-0⅛	6.10
E.I.B 6 97	300	98½	99⅛	-1½	-1⅛	6.17
E.I.B. 6⅛ 96	300	99	99⅛	-1¼	-1½	6.22
E.I.B. 6¼ 97	400	98⅞	99⅜	-1	-1¼	6.24
E.I.B. 6⅞ 95	300	103⅝	104⅛	-1½	-2	6.19
Euro. Coal & Steel 5⅞ 97	175	97⅞	98½	-0⅛	-0⅛	6.15
Eurofima 6¼ 96	100	100⅝	101⅛	-0¼	-1½	6.09
Elec De France 5¾ 97	300	96⅝	97⅛	-0⅛	-1⅛	6.19
Forsmark Krtg. 5¼ 93	200	100¼	100⅞	0	+0½	5.00
I.A.D.B. 6 97	200	97⅝	98⅛	-0¼	-0⅛	6.29
IBJ 5⅞ 92	100	†102½	103	-0½	-0½	5.16
Japan Finance 5¾ 97	100	96⅞	97⅛	-0½	-0⅛	6.16
Ireland 6½ 97	300	†99½	100	-0⅛	-1	6.54
Korea Dev BK 6⅛ 93	100	101⅞	102⅜	0	-1	6.09
Malaysia 6¼ 94	150	100⅞	101⅛	-0½	-0⅛	6.00
Nat. West BK. PLC 6 98	300	†97½	98	—	—	6.31
Oesters. Kontbk. 5 93	300	100¼	100⅞	-0¼	+0¼	4.87
Portugal 5⅜ 92	150	101⅞	102⅜	0	-0¼	5.14
Portugal 6⅛ 95	150	101⅞	102⅜	0	-0½	6.27
Privatbanken 5¼ 93	150	98⅞	99¼	-0⅛	0	5.46
Royal Insurance 5½ 92	300	†101¼	101⅜	-0½	-0½	5.07
Statoil 6¼ 97	200	†99	99½	-0½	-1⅛	6.36
Soc Cent Nuclear 7¼ 95	150	105¼	106	-0¼	-0¼	6.24
Tokyo Elec. Power 6 97	300	*99⅜	99⅞	0	-0⅛	6.13
Westlb. Finance 5 93	200	*99⅜	99⅞	0	0	5.15
World BK. 6¼ 97	600	99⅝	100¼	-0⅞	-0⅛	6.27

Average price change... On day -0⅛ on week -0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev. Bk. 5⅛ 96	100	†102½	103¼	0	-0½	5.18
Asfinag 5 02	150	†100	100½	-0⅛	-0⅛	4.97
Bk. Frgn. Econ. Usr 5 98	100	†100	100½	0	0	4.96
Bayer W/W 2½ 02	250	*97½	98¼	+0¼	-0½	2.67
Bayer. Vrnsbk. Os. 4½ 98	100	†101¼	101½	-0⅛	-0¼	4.57
Elec. De France 5 07	100	*100¼	100¾	0	-0⅛	4.94
E.I.B. 4¾ 97	200	†101½	102	+0¼	-0⅞	4.51
E.I.B 4⅝ 97	200	†100	100¼	0	-0½	4.61
Enso Gutzeit 5 99	100	*101¼	101⅞	0	-0⅛	4.85
Ireland 5 02	150	†97¾	98	-0½	-1⅛	5.21
Nippon Sais. Ksha. 4⅝ 93	80	†102	103	-0½	0	4.07
Occidentl. Petrol 5¼ 92	100	†103⅛	104	-0⅞	-0⅛	4.63
Prov. of Manitoba 4½ 02	200	†100⅞	101	-0½	-0¼	4.64
Prudential Fin. 4¾ 98	200	†101	101¼	-0⅛	-0½	4.60
Qantas Airways 4¾ 97	110	†98	98½	-0½	-0⅛	4.99
SHV Holdings 4¾ 94	100	*102¼	102¾	0	+0¼	4.33
Trans-Can. Pipe 4⅞ 94	100	†101	101¼	-0⅛	-0⅛	4.64
Usfrg. 5⅛ 96	120	*103⅝	104	-0¼	-0⅛	4.92
Victoria Pub. Ath. 5⅜ 03	118	*101⅛	101⅝	0	-0¼	5.22
World Bank 5 02	200	†99¼	100	0	-0⅛	5.01

Average price change... On day -0⅛ on week -0½

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅜ 92	55	102⅜	102⅞	-0¼	-0⅛	4.81
Belgium 4⅞ 94	45	97⅛	97½	-0¼	-0⅛	5.14
Canada 4⅜ 92	80	98⅝	98⅞	-0¼	-0⅛	4.71
Elec. De France 5⅛ 94	20	100⅛	100⅝	-0¼	-0⅛	5.05
Ireland 5⅛ 93	30	99⅞	100⅛	-0¼	-0½	5.12
Norway 5⅛ 95	50	99⅛	99⅞	-0¼	-0½	5.17
Rep. of Italy 5⅜ 92	150	103⅛	103⅞	-0¼	-0⅛	4.68
Sweden 4⅜ 92	50	98⅛	98⅞	-0¼	-0½	4.74
World Bank 5⅛ 92	50	103⅜	103⅞	-0¼	-0⅛	4.65

Average price change... On day -0¼ on week -0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. BS 10¼ 93 £	50	101⅜	101⅞	-0½	-0⅞	9.85
Alg. Bk. Ned. 5¾ 92 FL	150	101	101½	0	+0⅛	5.12
Amro Bank 6¼ 92 FL	150	101⅞	102⅛	-0⅛	0	5.73
Barc. Aust. 14 91 A$	20	103⅞	103⅞	-0⅛	-0⅞	12.63
Barc. Bk. 10¼ 97 £	250	98⅞	99⅛	+0½	-0⅛	10.40
BP Capital 9¾ 93 £	100	100½	101	0	-0¼	9.54
British Airways 10 98 £	100	97¼	97¾	+0¼	-0⅛	10.45
C.I.B.C. Mort. 10⅝ 93 C$	100	†100⅞	101⅛	-0⅛	-1⅛	10.41
Coop. Ctr. Rabo. 6¾ 93 FL	100	102⅛	103⅛	+0¼	+0¼	5.53
Coop. Ctr. Rabo. 6 92 FL	200	101⅞	101⅞	0	-0¼	5.54
Denmark 7⅞ 92 ECU	100	102⅜	102⅞	-0¼	-0⅛	6.94
Deutsche Bank 9⅞ 97 £	75	†99¼	99⅞	0	-0⅛	9.96
Deut. Bk. Aust. 12¾ 95 A$	70	103⅛	104⅛	-0¼	-1⅛	11.85
Dresdner Fin. 13⅞ 91 A$	100	†104⅛	105⅛	-0⅛	-0⅛	11.81
E.I.B 10½ 98 C$	130	†97⅞	98⅞	-0⅛	-2⅛	10.43
E.I.B 8⅛ 93 LF	1000	†102⅞	103⅞	0	0	7.76
Euratom 7⅞ 97 ECU	145	†95⅞	96⅛	0	+0⅛	8.04
Eurofima 7½ 92 FL	50	106	107½	-0⅛	-0⅛	5.56
Fed. Bus. Dv. Bk. 9⅞ 92 C$	75	†99½	100	-0¼	-0⅛	9.82
Ford Cr. Can. 10⅞ 93 C$	100	†102½	103	+0⅛	-1	9.97
Gillette Can. 9⅝ 93 C$	70	96⅛	97⅛	0	-0¼	10.42
G.M.A.C. 9⅞ 93 C$	150	†98⅛	98⅞	0	-0⅛	10.15
G.M.A.C. 9¼ 92 C$	75	98⅛	99	0	-0¼	9.68
G.M.A.C Aus. Fin. 14 90 A$	50	102⅞	103	-0¼	-0⅞	12.42
Halifax BS 10⅜ 97 £	100	98½	99½	0	-0⅛	10.59
Heineken NV. 6½ 91 FL	150	†104	104½	+0⅛	-0⅛	4.79
Imp Chem Inds 10 03 £	100	97½	98⅛	-0⅛	-0⅞	10.30
Inv. Industry Int. 10 93 £	60	101⅛	101½	0	-0⅛	9.66
Lloyds Bank 10¼ 98 £	150	98	98½	0	-0¼	10.53
Mtge. Bk. Den. 6¼ 91 FL	100	103⅛	104	0	+0½	5.32
Nat. Australia 14 92 A$	50	103⅛	103⅞	-0⅛	-0⅞	-0.71
Nat. West. Bk. 13⅝ 92 A$	50	†104⅝	104⅞	-0⅛	-0⅞	11.70
Nationwide BS 10⅛ 93 £	75	101⅛	101⅝	0	-0⅛	9.72
Ned. M Inst. Bank 6½ 92 FL	150	101¼	101¾	+0⅛	+0¼	5.56
New Zealand 9½ 93 £	100	98½	99⅛	+0⅛	+0⅛	9.79
New Zealand 7⅞ 93 ECU	200	99½	100¼	-0⅛	-0⅛	7.80
Oestars. Ktbk. 13⅝ 94 A$	75	105⅛	105⅝	-0⅛	-1⅛	12.28
Prudential Fin. 9⅞ 07 £	150	90⅛	91	-0⅛	-0⅛	10.93
Royal Bk. Scot. 10⅞ 98 £	125	99½	100	+0⅛	0	10.71
S.D.R. 7¾ 95 ECU	90	98⅛	98⅝	-0⅛	-0⅛	8.09
World Bank 5¾ 92 FL	100	101⅛	101⅞	-0⅛	0	5.27
World Bank 13⅞ 92 A$	100	†105⅝	106⅛	-0⅛	-0⅛	11.50

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alberta 3 93	.0312	100.30	100.40	13/06	8.17
Alliance & Leic. Bld 94 £	.08	99.21	99.26	21/07	8.33
Belgium 91	0	100.24	100.33	22/08	7
Britannia 5 93 £	0⅛	99.81	99.86	8/07	8⅛
Chase Manhattan Corp 91	0⅛	99.21	99.39	22/08	6.94
Citicorp 98	†0¼	96.35	96.60	31/05	7.14
EEC 3 92 DM	†0	100.58	100.63	22/08	3.56
Halifax BS 94 £	.1	99.60	99.65	9/08	8.47
Intl. In Industry 94 £	0	99.61	99.71	24/05	9.44
Leeds Perm. B/S. 94 £	0⅛	99.86	99.91	13/07	8.37
Midland Bank 01 £	.1	94.87	95.87	11/05	9.42
Milk Mkt. Brd. 5 93 £	0⅛	99.56	99.61	30/06	8.81
New Zealand 5 97 £	.07	99.90	100.00	18/05	9.44
New Zealand 5 01	0	99.16	99.26	4/08	6.98
United Kingdom 5 92	0	100.04	100.11	7/07	6.94
Woodside Fin. 5⅛ 97	0	99.26	99.36	28/07	7.31
Woolwich 5 95 £	0⅛	99.51	99.56	19/05	9⅛

Average price change... On day -0.02 on week +0.01

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02	8/87	62.	95	96	-0¼	34.57
Alco Health 6¼ 01	17/86	26.25	94	95	-1¼	18.12
American Brands 7¾ 02	9/87	56.7	99	100	-0⅛	28.93
American Can Co. 5¼ 02	4/87	64.75	63¼	64¼	-0⅛	20.21
Ashikaga Bank 2½ 02	4/87	967.	140¼	142⅛	+4¼	2.90
Asics 5 92 DM	12/83	472.7	183⅛	184⅛	-2	3.75
CBS. Inc. 5 02	4/87	200.	89⅛	90¼	-0⅛	18.32
Fuji Hvy Inds 3 00	8/85	676.	182⅛	184⅛	-1⅛	0.25
Fujitsu 3 99	5/84	1106.	261⅛	262⅛	-4⅞	-1.94
Gunma Bank 2⅝ 02	4/87	808.	175⅛	176⅛	+13⅛	11.56
Kinki-Sogo Bk. 2⅞ 03 US	4/88	1069.	111⅛	112⅛	+0⅛	4.92
Land Secs. 6⅛ 02 £	6/87	6.72	98½	99⅛	+0⅛	19.01
MCA INC 5⅛ 02 US	19/87	69.62	81	82	-0⅛	30.81
Minolta Camera 2⅝ 94 DM	2/86	1004.	98⅛	200⅛	-0⅛	29.40
Mitsui trust 2⅝ 01	10/86	1903.	151⅛	153	+0⅛	0.93
Next PLC 5⅞ 03 £	11/87	4.3	103⅛	104⅛	-0⅛	36.97
Nishi Nipp. Bk. 2⅞ 03 US	4/88	804.	109⅛	110⅛	+3⅛	10.97
Omron Tateisi 2⅝ 02	4/87	1310.	244	245⅛	-7⅛	-2.20
Ranks Hovis 4⅞ 03 £	1/88	3.5	113⅛	114⅛	+0⅞	17.61
Redland 7¼ 02 £	1/87	5.4	95	96	-0⅛	25.78
Texas Inst. 2⅞ 02 US	9/87	82.87	77⅛	78	-1⅞	37.61
W.R. Grace 6¼ 02 US	9/87	42.12	82⅛	83⅛	-0⅛	34.19

* No information available—previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

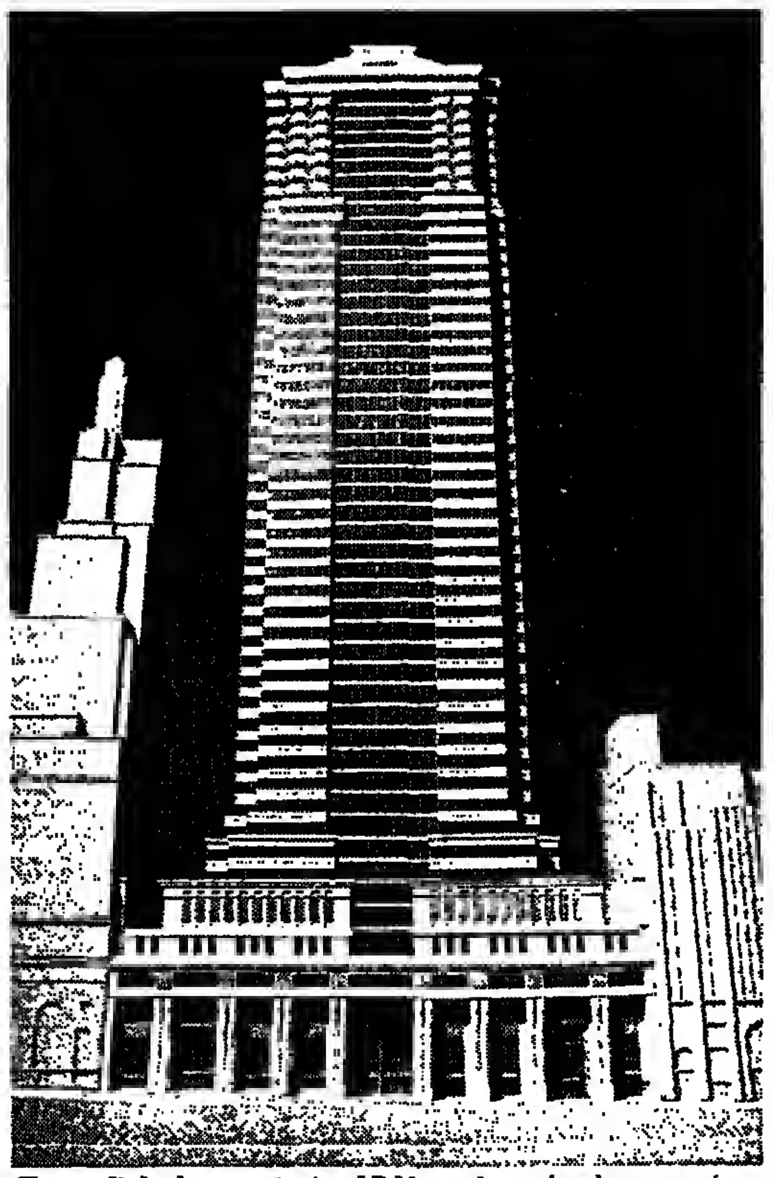
Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

“The techniques change. The principles don’t.”

Combining capital strength with financing, advisory, trading, and investment skills throughout the world, J.P. Morgan continues to innovate to serve our clients better. Yet the principles that guide us in today’s integrated, technology-driven financial markets haven’t changed in 125 years.

In everything we do the client’s interests come first, a way of doing business that produces impartial, objective advice on any matter, however confidential. Many years ago J.P. Morgan himself said it best: “The client’s belief in the integrity of our advice is our best possession.”



Change linked to continuity: J.P. Morgan’s new headquarters rise on Wall Street two blocks from where the firm has had its principal offices for more than a century.

JPMorgan

UK COMPANY NEWS

PROFITS FROM SALES OF TRADING PROPERTIES NOT DISCLOSED

Sears £246m disappoints the City

BY MAGGIE URRY

DISAPPOINTMENT with full year results from Sears, the retailing, betting and housebuilding group which acquired Freemans, the mail order company in January, knocked 6p from the shares to 122p yesterday.

For the year to end January Sears reported a 12.3 per cent gain in pre-tax profits to £245.7m. The figure included an exceptional credit of £10.7m (£7m).

Profits on the sale of trading properties were included within divisional profits, and Sears yesterday refused to disclose the total amount.

Group sales fell by 4.8 per cent to £2.4bn because of the elimination of discontinued activities – mainly the sale of the motor businesses in 1987 and the sales of Lewis's and Butler Shoe announced earlier this week. The turnover of continuing businesses rose by 11.6 per cent to £2.1bn.

At the trading level, the profit gain was 6.1 per cent to £232.1m. Excluding the profits from businesses sold, trading profits were 14.3 per cent up at £233.4m. The proceeds from sales of businesses helped to cut interest charges from £11.1m to £1.7m.

The footwear division showed a sales gain of 7.3 per cent to £696.5m, but stronger margins gave a trading profit gain of 23.2 per cent to £106.2m. Mr Geoffrey Maitland-Smith, chairman, said that the reorganisation of the various chains into defined market segments had largely been completed although there was more to be done on refitting the stores.

The retail division, which includes Selfridges, Wallis, Foster, Hornes (acquired in July 1987), Freemans, Millets, Olympus Sports, Garrard and Mappin & Webb, increased trading profits by 14.3 per cent to £80.9m on sales 16.5 per cent higher at £678.7m.

Freemans contributed £500,000 to profits. Mr Maitland-Smith said Freemans profits had missed the £33.2m forecast in its defence document by £6m. In the current year, he said, Freemans profits would be £8m to £10m short of the interest charges attributed to the £461m purchase.

Trading profits from the William Hill betting business fell from £24.1m to £17.5m. Mr Maitland-Smith blamed the increased success of favourites winning races for the shortfall on the previous year which had been exceptionally favourable for the bookmakers.

Profits from housebuilding and property investment rose by 24.7 per cent to £28.8m. A total of 1,100 houses were completed, up from 950, and the average selling price was £80,000.

Earnings per share were 16 per cent higher at 10.9p and a final dividend of 3.25p net gives a total of 4.6p, up 15 per cent.

Balance sheet gearing was 46 per cent at the year end, a level regarded by the chairman as comfortable. Shareholders' funds fell from £1.01bn to £910m during the year, as goodwill written off on acquisitions of £402m and other negative movements exceeded retained profits of £47m and a property revaluation surplus of £312m.

See Lex

Summer's ADR facility

By Philip Coggan

Summer International, the former Sumrie Clothes, has arranged for its shares to be traded as American Depositary Receipts in the US.

Summer is in the process of completing the acquisition of Betty Owen Secretarial Systems, a secretarial training company based in the US. The move is part of Summer's diversification following the shift of management control to City & Westminster Financial, the corporate finance group, last year.

Mr Andrew Greystoke, chairman of CWF and a director of Summer, said yesterday that an ADR facility would help the group to expand in the US. The facility is being arranged with the Bank of New York.

Ratners

Ratners, the fast-expanding jewellery retail group, is planning an American Depositary Receipt facility in the US probably later this year. The group has recently made three substantial US acquisitions - Sterling, Westhall and Osterman.

Steady progress at Runciman

PRE-TAX profits at Walter Runciman rose from £2.32m to £2.94m in 1987, and the final dividend is raised from 3p to 3.5p for an increased total of 6.5p – up 1p.

The directors of the shipping, insurance and security engineering group said that since the year-end, an order had been placed for a new 8,200 cubic metre ethylene carrier to be built in Germany. A 22-acre warehousing complex had been acquired, and the company has increased its stake in James Fisher and Sons to 11.2 per cent.

Looking ahead, the chairman said he was confident pre-tax profits would again exceed those of the previous year.

Group turnover in 1987 was lower at £37.66m compared with £42.41m. Tax took £871,000 against £641,000, and there was an extraordinary debit of £242,000 (£119,000 credit).

Stated earnings per share improved from 19.1p to 23.5p.

WINDSOR SECURITIES.- The offer of 2,091,123 new Windsor ordinary shares made by Charterhouse Bank to Windsor shareholders closed on May 6. Applications were received in respect of 1,150,342 and have been accepted in full.

Professor Roland Smith was in relaxed mood as he chaired the annual meeting of British Aerospace yesterday. "I'll answer some of your questions" he told shareholders assembled at London's Marriott Hotel "the more difficult ones will be answered by my colleagues".

He announced in advance that he was constrained from answering questions about the proposed merger between his company and Rover, the state-owned motor group. But one shareholder, Mr Noel Falconer of Bliss (British Leyland Individual Shareholders Society) pleaded with the Professor to meet with his organisation. "Many of our members are old and frail" he said.

In reply to Mr Falconer, Professor Smith said that he would meet with Rover shareholders when the time was right. The Rover deal is currently being investigated by the European Commission which has the power to block the merger.

Although there were a few grumbles inside the meeting about the level of dividends and the £320m provision for potential civil aircraft losses, the only signs of revolt were outside. Workers distributed leaflets to shareholders protesting about proposed job losses in the company's dynamics division.

BOARD MEETINGS

TODAY

Interims- Associated Paper, Commercial Union, Grand Metropolitan, International Thompson, Stakis, TMD Advertising, TR Portfolio Selection Fund, Tiger Oats.

Finals- City of Oxford Investment Trust, Chelsea Artisans, External Investment Trust, Fairbriar, Harrison & Crosfield, Local London, Marks and Spencer, Parrish, South African Breweries.

FUTURE DATES

Interims-

Diploma	May 18
Overseas Inv. Trust	May 13
Radio City	May 23
Shaftesbury	May 17
Thornton (G.W.)	May 24

Finals-

Fine Art Developments	May 24
Foster (J.)	May 18

J.Bibby to sell US offshoot in $40m deal

By Patrick Daniel

J Bibby & Sons, agricultural and industrial conglomerate which is 85.5 per cent owned by Barlow Rand of South Africa, announced yesterday that it is to sell Interchecks, the US cheque manufacturer it acquired in December 1986.

The Seattle-based company is to be sold to a US subsidiary of Norton Opax, the UK's second largest printing group.

Norton will pay about $40m (£21.3m) cash for Interchecks, subject to approval of the deal by US authorities. The consideration compares with Bibby's acquisition price of $26.5m (£18.5m using rates prevailing at the time).

Mr Richard Mansell-Jones, Bibby chairman, said that because the 1986 acquisition had been financed by borrowings in US dollars, the sale would mean a profit of about £15m in sterling terms. He said the move followed a re-assessment of Interchecks' future within the group.

Bibby, also announced yesterday that it intends to sell its Princeton Packaging subsidiary in the US to Princeton's management at a price to be negotiated.

The disposal of Princeton follows the US Federal Trade Commission's recent rejection of the group's earlier plan to sell part of its US packaging business to James River Corporation, a US paper and packaging group.

Mr Mansell-Jones also said that Bibby had a "disappointing" first half with pre-tax profits down from £17.86m to £15.03m for the six months to March 26.

The agricultural division saw trading profits fall from £6.8m to £4.3m as a result of depressed market conditions all-round – from lower EC milk quotas to the worst conditions in the pig industry since 1983.

The security printing division suffered a drastic fall in trading profit from £1m to £147,000 in the first six months, despite a 27 per cent increase in sales to £15.7m (£12.4m).

Mr Mansell-Jones said Interchecks first-half results had been affected by "the cost of rationalisation" of US plants, including the closure of three cheque-making facilities, made neccessary by mergers among several regional US banks.

In a separate statement yesterday, Mr Richard Hanwell, chief executive of Norton Opax, said Interchecks had an excellent market position in areas of the US where Norton was at present unrepresented.

"The US cheque market is buoyant and we expect it to remain so for many years to come," Mr Hanwell said.

Delays in site completion affect McCarthy & Stone profit rise

BY CLARE PEARSON

DELAYS IN completing building schemes and planning permission problems held back the results of McCarthy & Stone, developer of sheltered housing for the retired, for the half-year to the end of February.

Pre-tax profits advanced by 29 per cent to £9.8m (£7.6m) on turnover up 49 per cent at £51.9m (£34.9m). But operating margins slipped to 25 per cent, about 2½ percentage points down on the same period last year.

Sales of retirement apartments in the UK contributed the bulk of profits. The group said the rate of house price increases in the south-east and, increasingly, the Midlands, remained encouraging. But planning permission appeals, mainly in the south-east, had increased to 11, against seven in the same period last year, and failed appeals were increasing.

The international division made a negative contribution during the first half. The first units in Dublin are due for release this month, while sales in France should commence in the next financial year.

Initial interest in the group's first leisure village, designed for the younger retired, at Witney in Oxfordshire, was described as "encouraging" and the first occupations are scheduled for the late summer.

A heavier £3m interest charge (£2.1m) reflected utilisation of a £100m multi-option facility, to which a £50m five-year uncommitted portion has recently been added.

Earnings per share on a fully diluted basis worked through at 12.63p (9.63p). The interim dividend is raised to 1.14p (0.95p).

Adverse publicity about the company's maintenance charges earlier this year is believed to have had a negligible effect on sales. Mr John McCarthy said he was unable to comment on its effects as the company was currently involved in litigation with the Daily Telegraph.

But he acknowledged that some residents had complained and admitted that it was complicated to work out how the charges were calculated from the company's literature, which is being changed.

● comment

The market took one look at McCarthy & Stone's falling margins yesterday and feared its spectacular advance was running out of steam. However, the margin slippage should be rectified in the second half as delayed sites come on stream, and the omens for sales are excellent. Reservations have been 65 per cent, and visitors more than 30 per cent, higher than they were during March and April last year. Planning permission difficulties should now be built into overheads control. In the longer term, McCarthy, which still has far-and-away the dominant position in the expanding sheltered homes market, shows no signs of running out of ideas. It is diversifying into nursing homes and selling ever higher-quality units; notably the leisure village at Witney which should be joined by one in the grounds of Fettes College, Edinburgh, next year. The company will soon put in place a £50m commercial paper programme to supplement its MOF, so there is no near-term threat of a rights issue. Possible full-year pre-tax profits of £25m put the shares at last night's close of 473p, down 20p, on a p/e ratio of 11.5 - still a justifiable premium.

Verson profits soar to £865,000

BY VANESSA HOULDER

Verson International, the Midland engineering company, yesterday announced pre-tax profits of £865,000 (£176,000) for the year to January 31 1988, in its first report since its shares were relisted in January following the reverse takeover of Bronx Engineering.

Turnover was £34.1m, compared with £31.3m for the 14 months to January 1987.

The results were 10 per cent higher than the £790,000 forecast in January and the shares edged up from 22p to 23p.

Mr Tim Kelleher, chairman, described the past year as challenging, complex and rewarding, and during which the operational reorganisation of Bronx Engineering and its integration into Verson has been largely completed.

Verson's strategy has been to buy depressed UK engineering businesses, which it then reorganises and uses its international marketing arm to sell their products overseas. It has four manufacturers within the group, all of which are now trading profitably, said Mr Kelleher.

Verson's international network had continued to pay off for Bronx, which attributes £8m sales in the last few months to Verson's representation. Bronx Engineering was Verson's biggest acquisition and its first quoted one.

Acquisitions are actively being considered in complementary businesses, said Mr Kelleher. The rights issue in February, which raised £1.43m, has left Verson in a position to finance continued expansion and acquisitions. Gearing at the year-end was about 50 per cent.

Earnings per share are now 1.33p and with a final dividend of 0.23p per share, the total for the year will be 0.33p.

● comment

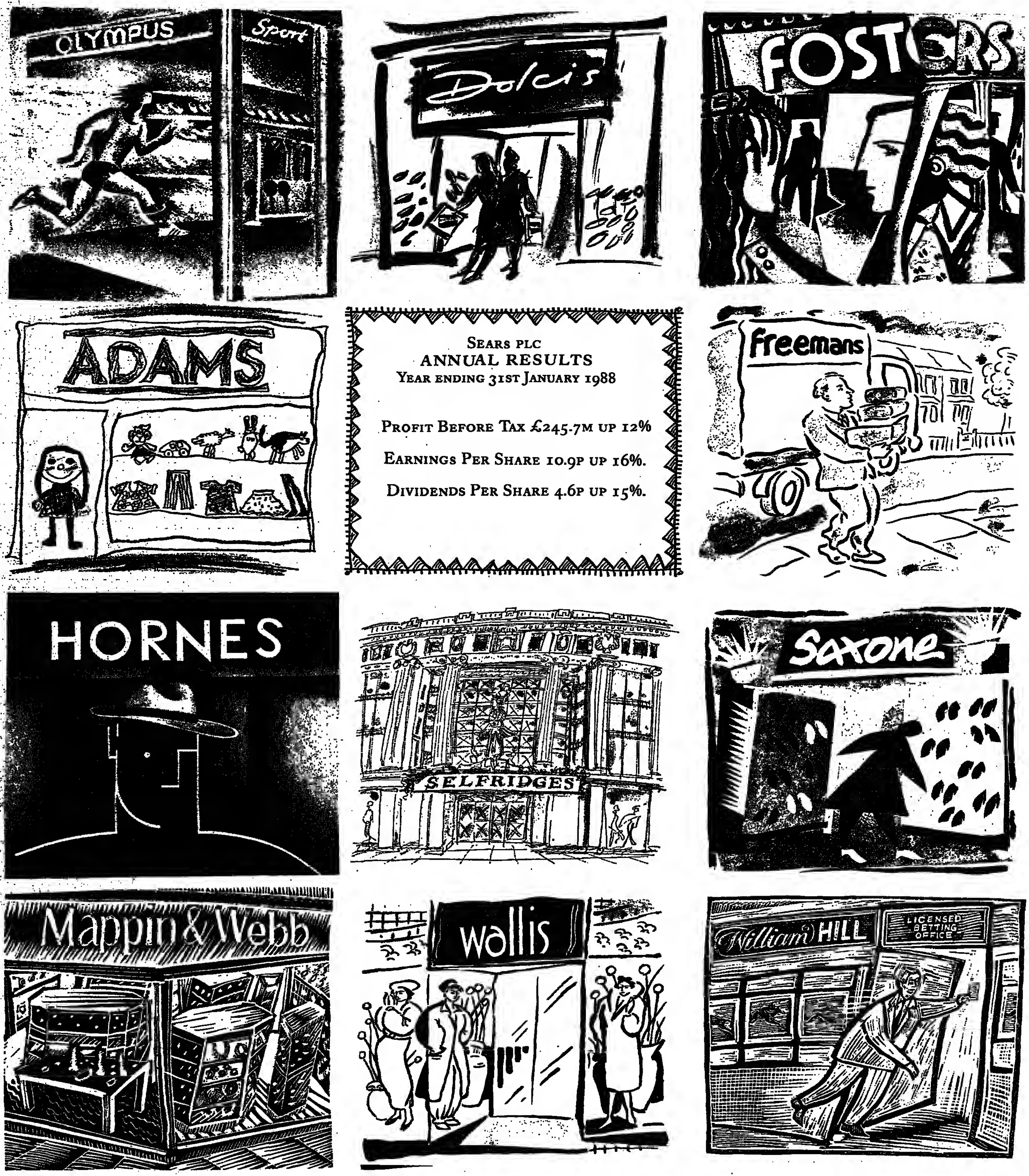
Fans of 'Texan Tim' have little doubt that in backing Verson International, they are 'backing the man'. Much depends on Mr Kelleher's astute choice of acquisitions, coupled with his ability to turn them round and, so far, the record has been impressive. The company is now ready to add to its clutch of machine makers and Mr Kelleher is actively considering a number of acquisitions. There is still plenty of scope for picking up down-at-heel metals-bashers in the UK, but Mr Kelleher does not exclude the possibility of a purchase overseas. The company is expected to make profits of £1.5m this year, which, after 13 per cent tax, puts it on a generous rating of 13.

SMITH & NEPHEW Associated Companies: shareholders voted at the annual meeting to change the company's name to Smith & Nephew.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Ambrose Inv Tst ...fin	8.03	-	8.03	12.41	11.58
Brit. & Am. Film ...fin	4.5	-	4	6.63	5.9
Centreway Inds ...fin	2	-	0.5	2.5	0.5
Centreway Trust ...fin	0.5	-	nil	0.5	nil
Fobel Int ...fin	1	-	1	1.5	1
Holmes Protect ...fin	2.1‡	July 20	1.65	3.1	2.6
King & Shaxson ...fin	6.75	-	6.25*	9.25*	8.75
McCarthy & Stone ...int	1.14	July 29	0.95*	-	4.1
Runciman (W) ...fin	3.5	-	3	6.5	5.5
Sears ...fin	3.25†	-	2.8	4.6	4
Stratton Inv. ...fin	0.3	July 5	-	0.5	-
Titon § ...int	0.85	July 1	-	-	-
UEI ...fin	4.7†	-	3.8	7	5.9
Verson Intl ...fin	0.23†	-	0.1	0.33	0.1◆
Warner Howard ...fin	2.07	-	-	3	-

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ‡Unquoted stock. ¶Third market. ☆For 17 months. ‡US cents throughout. ◆For 14 months.



SEARS PLC
ANNUAL RESULTS
YEAR ENDING 31ST JANUARY 1988

PROFIT BEFORE TAX £245.7M UP 12%

EARNINGS PER SHARE 10.9P UP 16%.

DIVIDENDS PER SHARE 4.6P UP 15%.

WHO SAYS YOU CAN'T PLEASE ALL OF THE PEOPLE ALL OF THE TIME?

A LOT OF RETAILERS CLAIM THEY CAN. (AFTER ALL, SPECIALITY RETAILING IS A VERY POPULAR CONCEPT THESE DAYS).

BUT YOU ONLY HAVE TO LOOK AT THE RANGE OF SEARS' RETAILING PORTFOLIO, TO SEE THAT NO ONE IS IN A BETTER POSITION TO MEET THE SHOPPING NEEDS OF BRITAIN THAN US.

FROM CHILDREN'S WEAR TO SPORTSWEAR, WE COMPETE IN NO LESS THAN SIX MAJOR HIGH STREET MARKETS.

AND IN EACH ONE OF THOSE MARKETS, OUR RETAIL OUTLETS ARE ALL FRONT RUNNERS.

LAST YEAR WE ENTERED ANOTHER FAST GROWING MARKET BY ACQUIRING FREEMAN'S HOME SHOPPING.

AND NEXT YEAR, WE INTEND TO ADD AT LEAST ANOTHER 240 NEW RETAIL OUTLETS TO OUR EXISTING PORTFOLIO OF OVER 5,000 IN EUROPE.

AND TODAY? TODAY WE ANNOUNCE OUR FINANCIAL RESULTS FOR 1987/88.

WE'RE SURE YOU'LL FIND THEM PLEASING TOO.

Sears plc

WE'RE STRONG ON THE STREETS.

DOLCIS, BERTIE, TRUEFORM, FREEMAN HARDY WILLIS, SAXONE, LILLEY & SKINNER, MANFIELD, CURTESS, SHOE CITY, HORNES, ZY, BRADLEYS, FOSTERS, YOUR PRICE, DORMIE, WALLIS, MISS SELFRIDGE, WAREHOUSE, SELFRIDGES, MAPPIN & WEBB, GARRARD, OLYMPUS, MILLETS, ADAMS, WILLIAM HILL, GALLIFORD SEARS.

UK COMPANY NEWS

Vivat hit by rationalisation costs

BY ALICE RAWSTHORN

THE COST of rationalising its European manufacturing activities sent Vivat Holdings, the leisurewear company which recently changed its name from the Lee Cooper Group, into a loss of £3.2m after tax and extraordinary items last year.

Vivat began to reduce its manufacturing operations in Europe three years ago. But the competitive state of the European jeans market has prompted it to accelerate the pace of rationalisation.

It has made a provision of £5.3m – expressed as an extraordinary item – to cover the cost of the cutbacks.

The group closed one factory in France and another in West Germany last year. At the beginning of this year, it closed a small plant in the UK and, 10 days ago, it announced 236 redundancies among its French workforce.

Mr Willi Mussmann, finance director, said that Vivat plans to retain limited manufacturing capacity in Europe. In future the bulk of its merchandise will be sourced from an established plant in Tunisia and from contract manufacturers in the Far East. The rationalisation should be completed in 1989.

The group's turnover rose to £145.7m (£139.7m) in 1987. But operating profits slipped to £5.5m (£9.7m) reflecting difficulties with the Jean Jeanie retail business in the UK. Interest payable increased to £2.3m (£1.7m), and pre-tax profits fell to £3.8m (£7.9m).

Earnings per share were reduced to 5.52p (13.28p). The board proposes to hold the final dividend at 1.7p, making 2.7p (2.5p) for the full year.

Mr Mussmann said that the core Lee Cooper jeans business had been 'satisfactory' in 1987. It had performed poorly in the first four months of this year because of the intense pressure on profit margins within continental Europe.

By contrast, the Jean Jeanie retail chain, which suffered from disruption due to senior management changes and difficulties in expansion, is now performing 'satisfactorily', he said. Vivat has also expanded into West Germany and Spain.

Mr Mussmann said that it was 'too early; to comment on the outlook for the rest of 1988 but warned that the group faced a very difficult year.

Friendly announces £25m hotels acquisition

By Clare Pearson

Friendly Hotels yesterday said it was acquiring Baron Hotels and Leisure for £25m, in a move which makes the fast-growing group one of the larger independent hoteliers in the UK.

The deal values Baron at £78m, after taking into account indebtedness, and the sale of three of its ten hotels for £39.88m within six months of completion.

Mr Henry Edwards, chairman, said: "There is no geographical overlap between our hotels and those of Baron, and most of them have been completely refurbished in the last few years."

Friendly had to spend about £5m in the last financial year on revamping the five hotels acquired from The Virani Group (UK) in 1986 and refurbishing Connaught Restaurants, bought in April 1987.

Friendly is issuing Baron with up to 9m ordinary shares at 235p, with the balance satisfied in 5 per cent unsecured loan stock. There is a £4m first year pre-tax profits floor for the seven hotels Friendly intends to keep.

Baron has undertaken not to sell more than 7.5 per cent of the shares in each of the first two years, and 10 per cent in the third year.

Tate & Lyle to issue bond in Staley battle

A Delaware court has required Tate & Lyle, sugar refiner, to post a $65m (£34m) bond as a condition for obtaining a preliminary injunction against the "golden parachute" arrangements for senior executives of Staley Continental, target of Tate's $1.42bn takeover bid.

Tate said it was making arrangements for the posting of the bond. In most cases, credit for such bonds can be arranged in US courts for the payment of a commitment fee of a ½ percentage point or less.

Tate's $35-a-share tender offer for Staley was due to expire at midnight last night, unless previously extended.

Grenfell cuts Mid Kent stake

BY ANDREW HILL

Morgan Grenfell, the merchant bank, has become the second big finance house to find itself out of its depth over investments in British statutory water companies.

Yesterday, the Takeover Panel asked the bank to reduce its 50.2 per cent holding in Mid Kent Water Company to below 30 per cent. Until then, Morgan Grenfell has agreed only to exercise voting rights equivalent to a 29.9 per cent in the company.

Under the Takeover Code, this is the maximum stake which can be built up before a full bid must be launched.

The stake was acquired for £5m on December 10 1986 following a public tender offer by Mid Kent for 8¾ per cent preference stock, redeemable in 1997. It only came to public notice a year later – last December – when the water company described Morgan Grenfell as its 'ultimate holding company' in a note to last year's report and accounts.

The Takeover Code has always applied to the 28 statutory water companies, which supply water alongside the water authorities.

Morgan Grenfell said yesterday that when it bought the stake it understood there was no requirement to declare it. The bank added that the stock was bought as part of its normal banking business.

The bank has already received several inquiries from potential buyers of the stock. Within the last year French water companies have bought stakes in statutory water companies – as the UK water industry prepares for possible privatisation of the much larger water authorities.

Just over two weeks ago, the Takeover Panel embarrassed Bankers Trust International, a US merchant bank advising the French water company Lyonnaise des Eaux, when it asked Lyonnaise to give up a 12.5 per cent stake in East Worcestershire Waterworks Company, acquired in breach of the Code.

GrandMet listing in Switzerland

Shares in Grand Metropolitan, the drinks, hotels and leisure group, are being listed on the Zurich, Balse and Geneva stock exchanges from today. GrandMet has had its shares listed on the Paris and Amsterdam exchanges for some years and the company said the Swiss move was the first stage in a new initiative to extend its shareholder base.

Filofax bosses cut share stakes

Mr David and Mrs Leslie Collischon, the husband and wife team behind Filofax, the upmarket diary company, have sold part of their stakes in the USM-quoted group.

Mr Collischon sold 450,000 shares and Mrs Collischon sold 300,000 shares, each at 145.5p. They retain beneficial interests in the company of 20.7 per cent and 4.7 per cent of the equity respectively.

The pair also have non-beneficial interests which carry their total stake in the company up to 63 per cent.

Ward White

Ward White, the acquisitive retailer currently locked in a £169m takeover battle for control of A.G. Stanley, yesterday announced the disposal of Charles Kushins, a US retail shoe chain, for $11.6m (£6.1m). The long-awaited move follows the sale of a clutch of businesses no longer regarded as central to the company's strategy. Ward White has recently disposed of Zodiac, its toyshop chain, its UK footwear and safety division, and Hofheimers, another US shoe-shops chain.

Allied-Lyons buy

Allied-Lyons is to buy River Oaks Agricorp, a Californian producer and marketer of premium quality wines, which operates a winery in Healdsburg and a 630-acre vineyard in the Alexander Valley, Sonoma county.

IN BRIEF

AMBROSE INVESTMENT Trust: net asset value per income share at March 31 1988 stood at 28.82p (30.21p) and per capital share 567.76p (615.45p). Net revenue before tax was £1.11m (£1.07m). Earnings per income share rose from 10.5p to 11.02p. A final dividend of 8.03p per income share makes 12.41p (11.58p) for the year.

ROBERTSON GROUP, through its wholly-owned subsidiaries, has acquired Matthew Hall's subsidiary Pincock, Allen & Holt of Denver, Colorado, and its Australian arm Pincock, Allen & Holt Pty, for $700,000 (£372,340) cash. Both companies are mining consultancies.

Andrew Hill looks at the growth of a leading consultancy

Fitch revives its designs on the world

MR RODNEY FITCH, tongue in cheek, says Lloyd's of London will have seen nothing like it in its 200-year history.

On Friday, his design consultancy, Fitch & Company, will present its proposals for the redesign of the interior of the controversial Lloyd's building. They were prepared in conjunction with the original architects, the Richard Rogers Partnership.

If the plans are approved, Fitch will add one of London's newest landmarks to the evidence of its prosperity as one of Britain's biggest design houses.

Last month the group announced record pre-tax profits of £2.43m for 1987, up nearly 28 per cent. Within the last fortnight the Fitch-designed British Pavilion at Expo '88 in Brisbane, Australia, has been opened and the company has announced a major contract from Ford UK.

The consultancy's reputation is likely to be further enhanced before long by the announcement of a long-awaited international acquisition, probably in the US.

Fitch & Company's pedigree is illustrious, if somewhat convoluted. Mr Fitch, its chairman, trained as an architect before joining Mr (now Sir) Terence Conran as a design assistant in 1962. Mr Fitch was head of Conran Design Group by 1969, when it was sold to Ryman, and later to Burton.

He and four fellow directors engineered a management buy-out of CDG in 1972 and the company came to the Unlisted Securities Market a decade later, graduating to a full listing in 1984.

Fitch & Company led the trend to improve retail design in the late 1970s. That discipline still provides the bulk of the group's business and clients include well-known names like Burton, Asda, Boots and Thomas Cook.

The company has seen continuing growth in profits and turnover since coming to the market, although an expansion overseas in the early 1980s met with mixed success. Business from offices as far-flung as Paris, Dubai, Abu Dhabi, Madrid and Johannesburg was eventually brought back through Fitch's London headquarters.

"Our egos were bruised," says Mr Fitch. "What we did wrong was we tried to offer locally a facsimile of what we had here in London."

The consultancy is now poised for international expansion again – a move into the US is likely and European commissions, particularly from Scandinavia, are already a feature of the group's work – but Mr Fitch says that this time the sales pitch will be

FITCH & COMPANY DESIGN CONSULTANTS PLC

more carefully tailored to each countries' requirements. For example, he believes European retailing is ripe for redesign; the group has already completed contracts in Holland and France.

A four-man main board, made up of Mr Fitch, Mr Ian Cochrane, managing director, Mr David Rivett, group development director, and Mr Philip Ling, a non-executive director, has just been formed to oversee international expansion. Mr Ling, who is also chairman of Haden MacLellan Holdings, the industrial group, was brought in earlier this year to bolster the international expertise.

Meanwhile, competition has been growing, from the likes of WPP Group and American company Landor Associates. Fitch has been forced to increase salaries to hold on to its top designers and in the early 1980s margins suffered as the company came under pressure. Mr Fitch admits now that the company expanded too quickly, and this was aggravated by delays in major contracts.

The setback does not seem to have harmed the group. Few consultancies rival Fitch for size – a recent survey in DesignWeek put the company in the top five UK design consultancies, both for number of designers employed (260) and fee income earned (£12.7m in 1987). It is one of the quirks of the sector that no single company – even the giant Building Design Partnership with 965 qualified designers and fee income of £36m in 1986-87 – dominates the market. People are all-important, and size is sometimes thought to hinder the service available.

Analysts say Fitch has not sacrificed quality for the sake of expansion; the company still boasts some of the industry's best-known designers. Fitch also uses its size to offer a wide range of design disciplines.

Last year it made its first major acquisition since coming to the USM, buying Gordon Bennett, a firm of architects specialising in shopping centres, for a maximum of £4.5m. The proportion of business generated by architecture increased from 30 per cent to 39 per cent last year.

More importantly, the acquisition allows Fitch – nicknamed Pitch & Company because of its finance-driven attitude to the business – to sell a complete design package to clients, particularly those specialising in retailing.

As part of this desire to offer one-stop design shopping for companies with an identity crisis, Fitch has reorganised itself into four main divisions – architecture, graphics, product and interior design.

It has also set up a three-tier management structure: the small main board, an operating board responsible for UK and European

Rodney Fitch: move into the US likely

operations and four management boards, corresponding to the new divisions. There are plans to put its offices, currently scattered through London's West End, under one roof in the Kings Cross development area.

New clients could be attracted by Fitch's current work for blue chip clients. Apart from the Lloyd's commission and the Ford contract – a project to improve Ford's package for customers – the company has been commissioned to create the Eurotunnel Exhibition Centre at Folkestone and there are continuing assignments for Midland Bank, Debenhams, Fentos and British Telecom, among others.

Analysts forecast that the company will show 25 per cent earnings growth in 1988 and pre-tax profits of £3.3m.

But the sector is likely to grow even more competitive in the years ahead. Just as the Conran Organisation spawned a brood of smaller designers – entrepreneurs, like Mr Fitch, who broke out on their own – so Fitch & Company, as it grows, will propagate a new generation of competitors.

UK COMPANY NEWS

Buoyant demand boosts confident UEI to £25m

BY VANESSA HOULDER

HIGH DEMAND for all its major products helped UEI, high-technology electronics and engineering group, push up pre-tax profits by 47 per cent to £25.1m for the year to January 31 1987. Turnover increased by 23 per cent to £141.9m.

Mr Peter Michael, chairman, said there had been a strong trading performance throughout the group. Order books were at record levels and customer interest was high, which gave encouragement for the group's future trading prospects, he said.

Spending on research and development increased by 25 per cent to £9.1m (£7.25m). In addition, a total of £12.1m was spent on plant and equipment. The company continued to generate cash strongly and gearing was halved to 13 per cent at the year end.

UEI broke down its sales into four areas: sound and vision (35 per cent of sales), text and graphics (20 per cent), scientific and medical (15 per cent) and advanced engineering (30 per cent). Geographically, the UK accounted for 33 per cent, Europe 31 per cent, North America 21 per cent, and the Far East 8 per cent.

Mr Michael said that Miles 33, the computer graphics company which was acquired in May 1987 for £37.4m, had performed in line with expectations.

Earnings per share rose by 23 per cent of 23.3p.The proposed final dividend is 4.7p making a total of 7p (5.9p) for the year.

● comment

With its strong growth and glamorous product base, UEI has earned itself a reputation as one of the most high flying technology stocks around. For one thing, compound earnings per share have grown at 22 per cent per year over the past five years. And for another, UEI's core quintet of businesses each boast a technological edge world wide and they are all selling into buoyant markets. Having been outbid for the US instrument company Kevex, UEI is still on the look out for acquisitions. But there are few that fit the bill and the company is confident that it can continue its expansion through organic growth. These results were much as expected and the shares eased down 1p to 336p. Analysts expect pre-tax profits of £30m for the year, which puts the shares on a fair rating of 12.

CH Industrials lifts Manganese holding

BY CLAY HARRIS

CH Industrials, chemicals and *specialist engineering group, has* increased its stake in Manganese Bronze Holdings, the taxicab and metal products manufacturer, to 20.37 per cent.

Mr Tim Hearley, CHI chairman, said yesterday: "We don't hava any intention at tha moment other than to be an investor." Nevertheless, Manganese Bronze shares closed 13p higher at 252p, close to their pre-crash peak.

Mr Rocky Stone, Manganese Bronze chairman, said: "As far as I know, they have no hostile intention."

CHI bought its latest 9.9 per cent holding at 247.5p per share from a concert party comprising Edward Le Bas, tha privately owned Ipswich holding company, and Mr Mark Dixon, who together now hold less than 2 per cent of the company.

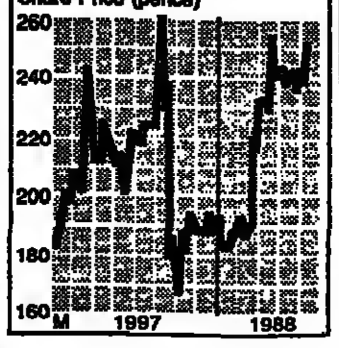
The £4.04m purchase will be financed by the issue of nearly 2.26m shares, vendor-placed by Kleinwort Grieveson Securities CL-Alexanders Laing & Cruickshank, and £74,500 in convertible loan notes to Mr Dixon.

The two groups' activities overlap in the motor industry. CHI's Aston Martin Tickford subsidiary does some engineering work for Manganese Bronze's traditional London cab, of which Tickford produces a luxury "stretched" version.

Both companies also make powered doors and windows for buses and coaches.

The companies' other interests are more diverse. Manganese Bronze supplies powdered metals and produces a wide range metal castings and components.

Manganese Bronze Holdings
Share Price (pence)



CHI products include building chemicals, block and moulded foam, sofabeds and padded headboard, carpet grippers and fixing strips, car sunroofs, seats for railway carriages, frames and trim for the motor industry, and caravan awnings.

In addition to shopfitting, supplemented by the supply of office furniture, CHI is active in property and investment. Its market value of £81m is about twice thet of Manganese Bronze.

The issue of an additional 928,082 shares will raise £1.36m towards the cost of CHI's original stake in Manganese Bronze. This reduces to £1.6m the borrowing associated with the holding, which had a market value of £8.43m yesterday.

CHI said it expected no earnings dilution arising from the share issue and the increased stake. Its shares unchanged at 153p, compared with the 146p placing price.

Guinness makes Dutch and Irish disposals

By Lisa Wood

Guinness, the brewing group, has continued its policy of rationalisation with the announcement yesterday of further disposals of its peripheral activities.

The two disposals are Multiplastic, a Dutch-based plastics manufacturer, sold for £4m to Dyno Industrier, the Norwegian group, and the business and assets of United Yeast in the Irish Republic, sold to W & R Jacob, the Dublin-based biscuit manufacturer, for I£1.3m (£1.1m).

Multiplastic, which makes moulded plastic containers for industrial use, was acquired by Guinness in 1972 at a time of diversification into several new business areas. During the last couple of years the business has become profitable, making Fl 1.8m in the year ending September 30 1987. Guinness said it was selling Multiplastic as it was not central to its business.

United Yeast, with depots in the UK and Ireland, distributes yeast and other food products to bakers and caterers. During the past 18 months Guinness has rationalised depots in the UK.

Agreement in principle has been reached to sell the Irish business and depots in Dublin and Cork to Jacob. Sales of United Yeast in Ireland in 1987 were I£3.65m on which a pre-tax profit of I£206,000 was earned.

Jacob said the acquisition fitted logically into its business in Ireland and gave it an entry into bakery and catering distribution. Guinness has retained the UK depots which can be more easily managed by the UK-based group.

Fobel clears the way for growth and profitability

After a number of years of restructuring at Fobel International, there now appears to be no further obstacles in the way of growth and profitability, according to the directors. They added *that the foundations had been* laid for rapid progress in the future.

The current financial year had started well, and the directors were confident that a substantial increase in profits would be made.

In the meantime, figures for 1987 show an increase from £1.92m to £2.67m in pre-tax profits. The total dividend of this manufacturer and distributor of electrical goods is increased from 1p to 1.5p with a same-again final of 1p. Stated earnings per 10p share improved from 7.3p to 11.7p.

There were heavy extraordinary debits of £1.56m (£602,643), which related to the settlement cost of the legal action brought by the purchasers of the DIY businesses sold in 1985. All claims and counter-claims have been dropped and the matter terminated.

CRH in £10m expansion

BY CLAY HARRIS

CRH, Irish-based building products group, has increased its British builders merchants outlets from 44 to 60 with the acquisition of Pioneer Building Supplies for £10m cash.

PBS, which is being sold by the Australian Pioneer Group, has 16 depots in 11 towns in Yorkshire, the east Midlands, south Wales and the south of England.

CRH, formerly Cement-Roadstone Holdings, said there were no overlaps with its existing network in Scotland and the south of England.

PBS reported turnover of £24m in the year to June 1988, but CRH said profit figures for the period were not meaningful. PBS has net assets of £8m and no debt.

Stratton

Net revenue at Stratton Investment Trust from October 23 1986 to end-March 1988 was £113,000 before £64,000 tax. Net asset value per share was 127p.A single final dividend of 0.3p is proposed.

Centreway Trust up 46%

PRE-TAX profit at Centreway Trust rose 46 per cent in 1987 from £629,000 to £916,000. Turnover fell from £28.2m to £20.47m. Earnings per 10p share rose from 3.2p to 3.4p.

The directors said the group results reflected the disposal completed in 1986 by Centreway Industries, 50.1 per cent subsidiary, which have given rise to improved profits on reduced turnover. The group is returning to dividends with a final payment of 0.5p.

Centreway Industries is paying a final dividend of 2p, making 2.5p (0.5p) for the year. It achieved taxable profits of £880,000 (£801,000) on turnover of £17.48m (£25.44m).

Fletcher King in £1.7m buy

Fletcher King has bought Ernest Howard, which has interests in construction management and quantity surveying, for a maximum £1.72m. Initial consideration will amount to £275,000 cash and an issue of 250,000 ordinary shares. There will be further profit-related payments to a maximum of £555,000 cash and 380,000 shares.

Carbo set for market listing

BY PHILIP COGGAN

Carbo, the former Carborundum Abrasives, is joining the stock market via an introduction just four and a half years after it was the subject of a management buy out.

After a complex series of financial restructurings, Carbo's US parent company had become part of Standard Oil of Ohio by the early 1980s. A management team, led by Mr Trevor Egan, bought out Carborundum's European operations for £2.3m in 1983.

At the time of the buy out, Carbo was in its third year of incurring substantial losses but after cost-cutting and investment in new machinery, the company moved back into profit in 1984, making £1.78m. *Net margins* have steadily improved and last year, Carbo made pre-tax profits of £3.08m.

In 1986, the group diversified by acquiring Polybau, a Swiss drainage products manufacturer. Carbo hopes the listing will enable it to make further acquisitions, perhaps in the area of specialist plastics.

Carbo's shares have been traded since 1983 on Granville's Independent Companies Exchange and the last quoted price was 140p. That indicates a market capitalisation for the company of £18.7m when dealings on the main market begin on May 16.

Jacksons expansion plans

BY CLAY HARRIS

Jacksons Bourne End would continue to make shoe components and to develop other existing businesses, Mr James Gulliver, chairman, told shareholders yesterday.

Speaking at the first annual meeting since Select Country Hotels, a private company headed by Mr Gulliver, bought control of Jacksons, he said the group planned to buy additional properties including suitable developments in the hotel and leisure sectors.

Mr Gulliver, soon to retire as chairman of Argyll Group, said the current year had started satisfactorily at Jacksons' shoe components subsidiary, considering the difficult trading conditions being experienced by the industry.

Shareholders approvad a three-for-one scrip issue as well as option agreements for Select and James Gulliver Associates.

Caffyns

Mr Colin Giltrap, New Zealand *car distributor, has bought* another 25,000 Caffyns shares, raising his holding of the Eastbourne-based motor dealer to 8.43 per cent, a stake which accounts for 5.25 per cent of voting rights.

CORRECTION

Bernard Matthews

The FT wrongly reported yesterday that shareholders had challenged Bernard Matthews' dividend policy at the annual meeting. Shareholders did not raise the issue from the floor. Mr Bernard Matthews, the chairman, told the meeting that "following the major change in taxation in the budget, some shareholders have commented on the level of dividend relating to 1987, point*ing out that the dividend cover is* one of the highest in the food manufacturing sector and the yield one of the lowest at the current share price. As a result, the board proposes to review its dividend policy, and in particular the dividend cover."

UK COMPANY NEWS

Holmes Protection 10% downturn

BY ANDREW HILL

DELAYS IN relocating its burglar alarm monitoring stations cut profits at Holmes Protection Group, the New York-based electronic security group with a London listing.

A 17.5 per cent increase in interim pre-tax profits was wiped out in the second half of 1987 and for the full year profits fell 10 per cent to $12.4m (£6.6m), against $14m in 1986.

Revenue increased to $59.5m ($53.1m), but operating costs and expenses rose by 23 per cent to $43.4m ($35.3m), much higher than expected.

The company admitted yesterday that it did not realise the extent of the expenses until after the year-end. It has since acted to improve operating and financial reporting systems.

Mr Brian O'Connor, chairman, said the opening of Holmes's new Metro Center – a fully automated central monitoring station for the company's 35,000 subscribers in New York, Long Island and New Jersey – was delayed.

He added that the delay meant paying rent on the new centre and the seven other stations it was supposed to replace. Meanwhile, some external jobs were postponed due to a shortage of installation staff, some of whom were drafted in to work on the Metro Center, finally completed in January.

Benefits of acquisitions made in late 1986, and seven businesses bought in 1987 were also late coming through, he said.

Mr O'Connor said the group hoped to acquire some small businesses this year.

"Our plan would be to increase the number of subscribers and therefore the amount of revenue we have coming through the new central station."

Revenues for the first quarter of 1988 were greater than in the same period last year.

Earnings last year dropped to 18 cents (21 cents), but an increased final dividend of 2.1 cents, makes 3.1 cents (2.6 cents).

● comment

Holmes has had a rough second half and not all due to circumstances beyond its control. The board was shocked to discover the extent of its expenses for 1987 – facts which did not emerge until after the year-end – and is now acting to improve its reporting systems. Peat Marwick's management consultancy arm is assisting. However, even if, as the company claims, this was merely a hiccup, it must make Holmes more vulnerable to a bid. Britannia Security Group is the most likely predator, especially if it can pick up the 15 per cent stake currently held by Wormald, the Australian fire protection and security business Holmes failed to link up with last year. Such speculation kept the shares solid at 110p last night. Forecast pre-tax profits of about $15.5m for 1988 would put them on a prospective p/e of about 10, which looks cheap, but investors may be cautious after yesterday's bad news.

Rental expansion lifts Warner Howard

BY PATRICK DANIEL

Warner Howard Group, supplier of commercial laundry systems and hand dryers, yesterday announced an increase in pre-tax profits from £2.46m to £3.25m in its first year as a listed company.

The 32 per cent profits increase, for the year ended February 29, came on turnover which rose by only 5 per cent to £12.86m (£12.24m).

Mr Ronald Hooker, chairman, said the company's profit performance was the result of its declared policy of expanding the profitable rental sector of the business.

Rental income accounted for about 50 per cent of turnover but over 80 per cent of pre-tax profits. The company also sells a range of commercial equipment.

With an 80 per cent renewal rate for existing rental contracts – often for fully-depreciated equipment – pre-tax margins improved from 20 per cent to 25 per cent.

The company has proposed a final dividend of 2.07p, making a total of 3p for the year. Earnings per share rose to 9.66p, from 7.65p.

The full-year results did not include any contribution from Automations International, a rival laundry equipment supplier the company acquired in December for £760,000.

Automations is expected to contribute £200,000 in the current year.

With new installations up 10-15 per cent in March and April, a further 23 per cent growth in pre-tax profits to £4m has been forecast by the company's brokers, Phillips & Drew, for the current year.

But Mr Hooker indicated that a higher growth was likely as at least two more acquisitions expected to cost around £4m were in the pipeline – one in the laundry business and another in a new, but related area of equipment rental.

Mr Hooker said his goal was to see the group's market capitalisation grow from its present £40m to £100m in three to five years through both organic growth and acquisitions.

Warner Howard's shares closed unchanged yesterday at 160p, against last June's 130p placing price.

Strong first half at Huntingdon

Huntingdon International Holdings achieved a 19 per cent rise in taxable profits in the six months to March 30 from £3.59m to £4.26m. Revenue rose 26 per cent from £20.07m to £25.28m.

The directors said demand for biological safety testing continued at very high levels, particularly in Japan. The company is also involved in engineering consultancy and analytical chemistry services.

It is taking steps to reduce the engineering side's involvement in construction-related services. However, the chairman said some of its newer acquisitions would require more time before this could be fully achieved.

Empire Soils Investigations, acquired in January, had already made a significant contribution to results and is expected to provide substantial opportunities

Earnings per share were 0.08p against a restated 0.064p.

British & Am Film downturn

REDUCED pre-tax profits of £620,157 were reported by British & American Film Holdings, investment holding company, for 1987 compared with a previous £726,165.

An improved final dividend of 4.5p (4p) is proposed for a total of 6.525p (5.9p). Earnings rose from 11.99p to 13.65p per 5p share but including companies not consolidated were down from 18.33p to 16.41p.

The company's subsidiaries are involved in film production. Their contribution was reduced from the previous year's above average profit due to lower video sales in the US as well as the unfavourable exchange rate of the dollar.

At year-end effective net asset value per share, excluding film rights, amounted to 489.3p (367.3p). At May 2 the figure stood at 553.8p.

Little change at King & Shaxson

After providing for rebate, tax and transfer to contingencies reserve, profits of King & Shaxson Holdings, banker, were unchanged at £1.75m for the year to end-April 1988.

A final dividend of 6.75p raises the total by 0.5p to 9.25p per 20p share. At year-end consolidated shareholders' funds stood at £19.48m (£19.37m). Smith St Aubyn (Holdings), subsidiary, showed a profit of £1.6m (£1m).

Increased margins help lift Titon 34% midway

Titon Holdings, Colchester-based window ventilator and fastening supplier, yesterday revealed pre-tax profits of £642,000 for the six months to March 30 1988, an increase of 34 per cent on the comparable period.

The results are the group's first since its entry to the USM in January. This was originally scheduled for November, but was postponed due to market conditions then prevailing.

Mr John Anderson, chairman, said that the outcome, achieved on turnover up from £3.09m to £3.51m, had been encouraging.

The increase in margins was accounted for by a slight change in the product mix together with increased marketing activity which resulted in a wider customer base.

Work has commenced on Titon's new factory at Haverhill, Suffolk, with occupation anticipated for October. Mr Anderson said the new capacity would allow the group to vacate four smaller units and increase production area by 30 per cent.

A maiden interim dividend of 0.85p is to be paid from earnings of 4.21p (3.22p) per 10p share.

Kenyon buys three undertakers

Kenyon Securities, USM-quoted funeral director, has acquired the goodwill and assets of the businesses of two Northern Ireland-based funeral directors, Houston & Williamson and Mulholland & Company, for £1.73m cash.

It has also acquired Messrs. Hemp, a funeral director based in west London adjacent to its existing business, for £120,000 cash.

GA purchase

General Accident has purchased Keith Cardale Groves, an estate agent with four offices in the West End and the City of London. Aggregate net assets amount to around £250,000.

As part of the consideration GA is issuing 238,626 shares. Further shares will be issued dependent on Keith Cardale Groves profits for the year ended April 30 1988.

PPS expansion

Prudential Property Services has acquired the residential business of South-east London firm, Donald James, for an undisclosed consideration.

The move boosts PPS's regional network of estate agency outlets to 41, in addition to increasing its presence in the South London housing market.

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CA

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MORGAN STANLEY

Report assesses West's mineral vulnerability

BY MICHAEL HOLMAN

PRODUCTION AND reserves of four minerals judged indispensable to industry are dominated by countries the political circumstances of which give cause for concern to Western consumers, says a report by the Economist Intelligence Unit published today.

It sees no immediate threat to supplies but suggests ways to reduce the West's vulnerability to disruption.

The minerals are: manganese, essential for steelmaking; chromium, used in stainless steel and superalloys; cobalt, also used for superalloys which form part of jet engines and gas turbines; and platinum, an essential component in industrial catalysts.

Manganese supply is dominated by the Soviet Union (40 per cent) and South Africa (15 per cent); chromium by South Africa (36 per cent) and the Soviet Union (29 per cent); cobalt by Zaire (40 per cent) and Zambia (16 per cent); and chromium by South Africa (36 per cent) and the Soviet Union (29 per cent).

The preponderance of South Africa and the Soviet Union is discussed in the report which says the role of the former takes on particular significance when production is assessed not as a percentage of global output but in terms of the non-communist world (NCW).

In the case of platinum, South Africa accounted for 75 per cent of NCW supplies in 1986.

As for manganese, the Soviet Union is "chronically short" of high-grade ores and "and thus for the NCW is a source of demand rather than supply, and of that supply South Africa contributed just over a third in 1986."

Much the same picture is seen in the chromite market, says the EIU. The Soviet Union is important as a producer, but not as a supplier of Western markets. By contrast, South Africa accounted for about 52 per cent of NCW chromite output in 1986.

The report assesses the risks of disruption to supplies by the Soviet Union. It says that while Moscow could upset Western markets in these and other minerals, the danger is slight.

It says: "East-West trade means far more to Mr Gorbachev than it means to the industrial democracies, and is unlikely to be put at risk by petty exercise in industrial disruption of the West."

The most obvious threats to supplies from South Africa are Western governmental sanctions, retaliation by Pretoria and labour disputes in South African mines.

But the report says sanctions directed against strategic minerals are unlikely, and although reverse sanctions cannot be ruled out, long-term commercial logic makes this unlikely.

It says mine strikes may occur intermittently, tightening the market, "but not beyond the point where other suppliers could expand their production to fill the supply gap."

On cobalt, the main risk to supply would be a producer cartel, says the report. However, two factors are likely to deter Zaire and Zambia:

● Prospects of US stockpile sales if prices were pushed too high.

● Memory of what happened in 1978 when rising prices encouraged consumers to find alternatives to cobalt.

Both countries' policy today "seems to be to develop a reputation as reliable suppliers involved in a long-term relationship with customers."

There is no single answer to the problem of Western vulnerability of supplies of essential materials, the report concludes.

It recommends a combination of stockpiling, scrap-collection, backing of research into alternative or new materials, and encouragement of the discovery and development of deposits in less sensitive areas.

Essential Raw Materials: The Threat of Supply Disruption. EIU, 40 Duke Street, London W1A 1DW. £95.

Canadian indium producers plan to increase output

BY KENNETH GOODING IN NICE

A BIG expansion of indium metal production capacity is planned by two Canadian groups. It will switch the main supply sources away from Western Europe, to North America.

The groups are Cominco, the world's largest lead-zinc producer, and Falconbridge, the nickel-copper group.

Behind the moves is the growing demand for indium in printed wirings, for liquid-crystal displays used in such growth areas as lap-top computers.

There is also the possibility of an explosion in demand from the automotive industry. The industry has been exploring indium use in conductive coatings for car-windows, to protect passengers from heat radiation in summer, and in resistivity heaters, for defrosting in winter.

An outstanding example of the growing interest of big base-metal producers in the minor metals which have potential in new and high-technology applications is provided by Falconbridge's entry to indium production and by Cominco's big expansion.

Both Canadian groups can prodnce 1m troy ounces of indium a year. They will almost certainly become the world's two biggest and lowest-cost producers.

Cominco, which produces 100,000 oz a year, will bring its plant on stream next year. Falconbridge will be in production in 1990.

World production of indium last year was about 2.62m oz, of which Europe, mainly Belgium and France, produced 1.25m oz.

Mr David Winter, of Cominco Metals, predicted at the Metal Bulletin minor metals seminar in Nice yesterday that the new capacity would cut the indium price from $10 an ounce to $5 an ounce within 18 months.

The current price was too high for carmakers to consider using indium on a large scale, he suggested.

He said indium was a very price-sensitive metal produced in batches to match demand. This had grown at an annual 10 per cent for the past 10 years.

The main applications are for electronic solder and fusible alloys, as well as for control rods in the nuclear industry.

Indium is a by-product of lead, copper and zinc smelting, usually recovered from flue dust.

However, Falconbridge probably has the world's biggest reserves, in waste water at its Kid Creek copper mine.

Mr Winter suggested the world was oversupplied with indium residues and that there was currently smelting capacity for 5m ounces a year, nearly 50 per cent more than required. Capacity, at the current rate of demand, would not run out until 1996.

If indium's price fell below $3 an ounce, much high-cost capacity would be mothballed, as it was when the price dropped to $2 in 1984, he said.

EC Commission agrees changes to farm income subsidy plan

BY TIM DICKSON IN BRUSSELS

IMPORTANT CHANGES to a controversial plan for paying direct income subsidies to European farmers were agreed by the European Commission at its weekly meeting in Brussels yesterday.

The revised measure – seen by many as a key complement to recent reforms of the Common Agricultural Policy(CAP) – is intended to answer many of the criticisms voiced by EC member states when the first proposal for so-called income aids was put on the table last year. This was widely condemned for being too elaborate, for attempting to distinguish between "viable" and "non-viable" farmers, and for striking an imperfect balance between national funding and financing from the European Community's own budget.

The issue is significant because of the growing global pressures – notably in the context of western Summits, the OECD, and the General Agreement on Tariffs and Trade – for a "decoupling" of farm support and agricultural production. Subsidising farmers through high guaranteed prices, the argument goes, is the root cause of world surpluses.

The income aid proposal is generally seen as a part of the "accompanying measures" including the acreage set-aside plan to pay farmers to take arable land out of production, and incentives for early retirement – designed to soften the blow of the recent package of so-called budget stabilisers for Europe's most vulnerable producers. Sceptics worry that income support will not be countered by sufficient price reductions and that the scheme may provide an unwelcome opportunity for some countries (notably West Germany) to "re-nationalise" the CAP.

AGRICULTURE MINISTERS of the European Community will hold an extra council meeting in Luxembourg from June 6.

The intention of the meeting is to negotiate the annual fixing of prices, EC officials said in Brussels yesterday, reports Reuter.

The farm ministers are, in any case, scheduled to meet from June 13, also in Luxembourg. It is not known how long the meetings will last.

Mr Ignaz Kiechle, the West German Agriculture Minister, said at the council meeting last month that he was determined to conclude negotiations during West Germany's presidency of the council, "even if I have to keep the ministers in conclave."

The West German presidency finishes at the end of next month.

The European Commission has proposed freezes on prices for most products. The sessions next month will bring tough talks to a head.

The Commission's new proposal, which is unlikely to be discussed seriously by member states until this year's farm price package is agreed, is somewhat simpler than the earlier version and is contained in just one regulation. The maximum level of aid has been fixed at Ecu 1,500 per "work unit" (or man/year) with Community finance ranging from 70 per cent of the total for the poorer member states to 10 per cent in the richer countries. National Governments will be allowed to top this up within certain limitations, but entirely at their own expense.

Significantly, the scheme is now limited to five years (before it was open-ended) but the most important changes are in the proposed rules for eligibility. Under the revised plan a farmer's total income (from all sources) will be compared with the average income in his region or country to test his eligibility, while his farm income will be compared with average regional or national farm income to work out the maximum amount received. Because of the perceived difficulties of finding reliable accounts in certain parts of the Community, member states will be allowed to set a fixed ceiling in certain regions.

To be eligible farmers generally will have to show that their global income is less than 100 per cent of average regional income or less than 75 per cent of average national income, but in no case can will they qualify if their income is more than 75 per cent of the national average.

The last Summit of EC heads of government set a budgetary limit of Ecu 600m (£400m) for an income aid scheme and the set-aside plan – to be divided more or less on a 50/50 basis. Europe's political leaders also set Agriculture Ministers a July 1 deadline to agree the details – a challenge which few in Brussels are expecting them to meet.

New Zealand growers squeezed by EC-Chile apple trade wrangle

BY DAI HAYWARD IN WELLINGTON

NEW ZEALAND'S delicately-balanced apple industry faces a crisis because of the sudden cut in its apple exports to Europe imposed by the European Community.

The country was told it could ship only 115,000 tonnes, about 15 per cent less than the 135,000 tonnes it had earmarked.

The blow is undoubtedly a devastating one for New Zealand's apple-growers and the effects will be much worse than might appear from the actual tonnage involved.

Many of the country's apple varieties are premium types produced in modest quantities. Tbe economics of their prodnction depend on the best possible price being obtained.

Last year about two-thirds of the NZ$300m (£110m) earnt from apple exports came from sales to Europe. If the good-quality apples have to be switched from Britain or the Continent to alternative markets offering mnch lower returns, or turned into juice of manufactured products, the delicate economics of the industry could be undermined.

The New Zealand Apple and Pear Board says that if the future quota imposed by the EC remains at this year's level the country's apple industry will be destroyed.

The board and its officers have reacted angrily against Chile, which they blame for provoking the EC into imposing the curbs.

Chile has flooded the European apple market for two successive years: in 1984 it sent 97,000 tonnes; tbe figure climbed rapidly to 140,000 tonnes last year; Chile planned to ship as much as 250,000 tonnes this year.

As a result prices for European-grown apples have plummetted and large quantities have been diverted into stock feed. It has also meant a rise in the cost of farm subsidies to EC growers.

Southern Hemisphere apple suppliers were warned last year that curbs could be imposed if shipments to the EC were not controlled.

New Zealand says it has always been a responsible supplier to Europe: it has controlled its shipments to arrive only after locally-grown apples were ended; it quits the market before the EC's own new-season apples arrive, making sure prices for locally-grown fruit are at a satisfactory level.

The EC initially acted against Chile by using a controversial surveillance scheme introduced in February to suspend Chilean import licences.

Chilean exporters threatened to appeal to the Geoeral Agreement on Tariffs and Trade because Chile was being singled ont. The EC extended the sanctions to all overseas suppliers.

New Zealand's Minister of Overseas Trade, Mr Mike Moore, has started proceedings in Gatt on behalf of New Zealand. He will pursue the case if no other solution can be found.

Mr Moore has also criticised the EC for breaking the Gatt agreement, established at Punta del Este, Uruguay, not to introduce new trade barriers.

One problem, says a NZ Apple Board official, is that Chile, with its free marketing methods, does not have any mechanism or body which can control exporters, and the Chilean Government says it does not interfere in commercial matters.

Chile has been steadily increasing apple ontpnt along with many other horticultural products which compete directly with New Zealand. It has also been working to improve the poor-quality image of its apples and other fruit.

Chilean apples now reach the Northern Hemisphere a month before New Zealand'a frnits, which are controlled to meet European requirements.

New Zealand apple-growers are confident that the traditional quality and its long-established reputation for quality in Europe will enable them to more than hold their own with Chilean exports. To have their exports compulsorily cut is a far more severe blow than having to face increased competition in the market-place.

Last week Mr Moore said an approach would be made to Chile over the shipment of apples to the EC. He would not specify its form.

New Zealand will also be trying to persuade the EC to raise the level of its quota – at least to the tonnage scheduled initially.

A DELEGATION representing *UK fruit traders and consumer* bodies will meet Mr John MacGregor, Minister of Agriculture, this week to protest against curbs on apple imports from outside the European Community.

Mr Sidney Garber, of the *National Federation of Fruit & Potato Trades*, yesterday said the EC's "unilateral" action was effectively "dictating to the British consumer what type of apples she or he could buy."

US nets record fish catch

US FISHERMEN netted a record 6.9bn lb of fish and shellfish last year, 865m lb more than in 1986, the National Oceanic and Atmospheric Administration said, reports Renter from Washington.

The catch, valued at $3.1bn, beat the record 6.5bn lb set in 1980 and earnt US fishermen an average of 45 cents a pound, the administration said.

A 2.7bn lb catch of menhaden and a 323 per cent increase on 1986 in landings of Alaskan pollock, to 552m lb, chiefly helped the record total, said an official.

Good catches of tuna, Pacific cod, crabs and scallops also helped.

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,240-2,280 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 5.20-5.50 (5.20-5.55).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, ingots 7.90-8.10 (7.80-8.20), sticks 7.90-8.10 (7.80-8.20).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 6.70-7.05 (6.75-7.05).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 270-300 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo in warehouse, 3.60-3.70 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 10.20-10.45 (10.25-10.50).

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonne unit (10 kgs) WO, cif, 55-60 (same).

VANADIUM: European free market, min 98 per cent, VO, cif, 3.10-3.20 (same).

URANIUM: Nuexco exchange value, $ per lb, UO, 15.75 (15.90).

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER PRICES on the LME continued Monday's gains, and the premium for cash grade A metal widened sharply to £169.50 a tonne from £97 as the cash price rose £92 to £1,325 a tonne. Prices rose strongly in morning trading following an increase in borrowing (buying cash and selling forward). Covering of short positions this week has revealed a general lack of readily available nearby metal, resulting in a subsequent sharp rise in premiums, traders said. Prices eased in the afternoon, with business centred on attempts to assess the extent of tightness around the May 18 options delivery date. Aluminium prices also continued recent gains, buoyed by news that the IPAI total non-communist producer stocks for March were down 87,000 tonnes to 3.09m tonnes. Some traders now believe the market is in need of a downward technical correction to prevent an overbought situation developing.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$14.95-5.00t	-0.15
Brent Blend	$16.40-6.45t	-0.12
W.T.I.(1 pm est)	$17.47-7.52t	-0.13

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$190-192	+1
Gas Oil (Soviet)	$142-143	-1
Heavy Fuel Oil	$78-80	
Naphtha	$163-165	
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$447	+2
Silver (per troy oz)♣	646c	+3
Platinum (per troy oz)	$533.5	+6.5
Palladium (per troy oz)	$122.75	+0.75
Aluminium (free market)	$2810	+155
Copper (US Producer)	104½-108c	+2
Lead (US Producer)	35.5c	
Nickel (free market)	770c	
Tin (European free market)	£3647.5	
Tin (Kuala Lumpur market)	17.38r	
Tin (New York)	324c	
Zinc (Euro. Prod. Price)	$1055	
Zinc (US Prime Western)	54c	
Cattle (live weight)†	111.83p	+1.64*
Sheep (dead weight)†	214.82p	+5.79*
Pigs (live weight)†	69.74p	-0.57*
London daily sugar (raw)	$234s	+8
London daily sugar (white)	$245s	+6
Tate and Lyle export price	£281.0	+3.5
Barley (English feed)	£104.5u	
Maize (US No. 3 yellow)	£132.5	
Wheat (US Dark Northern)	£92.75	+0.50
Rubber (spot)♥	67.00p	+1.50
Rubber (June) ♥	71.00p	+1.50
Rubber (July) ♥	71.25p	+1.50
Rubber (KL RSS No 1 June)	316.0m	+3.5
Coconut oil (Philippines)§	$530s	
Palm Oil (Malaysian)§	$420.0	+7.5
Copra (Philippines)§	$360	
Soyabeans (US)	£158.5	+0.5
Cotton "A" index	64.40c	+0.86
Wooltops (64s Super)	673p	+3

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. u-Oct/Dec. x-Jun/Jul. t-Jun. s-May/Jun.†Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian/Singapore cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
May	912	910	914 910
Jly	930	933	933 928
Sep	946	948	949 942
Dec	966	967	968 963
Mar	989	989	991 984
May	1007	1006	1005 1003
Jul	1025	1024	1024

Turnover: 1794 (2278) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 9 : 1241.42 (1225.54) .10 day average for May 9 : 1228.46 (1225.24)

COFFEE £/tonne

	Close	Previous	High/Low
May	1067	1058	1072 1048
Jly	1066	1074	1068 1069
Sep	1080	1084	1089 1078
Nov	1083	1097	1098 1090
Jan	1110	1115	1115 1112
Mar	1127	1132	1126
May	1145	1150	1148

Turnover: 3684 (3666) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 9: Comp. daily 1979 115.71 (116.01); 15 day average 115.31 (115.38).

SUGAR $ per tonne

Raw	Close	Previous	High/Low
Aug	202.40	202.60	213.40 190.80
Oct	201.00	201.00	202.40 199.40
Dec	191.00	192.00	
Mar	190.40	201.00	201.00 198.40
May	200.80	191.80	201.00

White	Close	Previous	High/Low
Aug	241.50	241.50	241.60 239.00
Oct	237.00	238.00	237.50 235.50
Dec	236.00	238.00	236.00
Mar	243.50	243.00	243.50 241.00

Turnover: Raw 4325 (2413)lots of 50 tonnes; White 858 (1072).
Paris- White (FFr per tonne): Aug 1365, Oct 1345, Dec 1343, Mar 1368, May 1400, Aug 1410

GAS OIL $/tonne

	Close	Previous	High/Low
May	142.50	143.75	143.50 142.00
Jun	140.75	141.75	141.00 139.50
Jul	140.00	141.50	140.50 139.25
Aug	141.00	142.70	141.00 140.50
Sep	142.50	144.50	142.00

Turnover: 4083 (5442) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low
May	104.70	104.05	104.70 103.95
Jly	106.80	106.45	106.80 106.35
Sep	101.90	101.00	101.90
Nov	103.75	103.75	103.85 103.75
Jan	106.40	106.40	106.40
Mar	108.75	108.75	108.85 108.75
May	111.10	111.10	111.10

Barley	Close	Previous	High/Low
May	103.85	104.60	104.00 103.85
Sep	98.65	98.40	108.70 198.50
Nov	101.10	101.05	101.15 101.10
Jan	103.40	103.25	103.40
Mar	105.15	105.00	105.15
May	107.35	107.20	107.35

Turnover: Wheat 300 (220) . Barley 36 (21) lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 0 tonne
Cash	2600-10	2735-55		2600-20		
3 months	2375-90	2315-35		2365-85	2370-90	4,639 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 24,250 tonne
Cash	1473-7	1430-5	1470/1468	1469-8		
3 months	1248-9	1216-7	1255/1240	1243-4	1251-2	50,273 lots
Copper, Grade A (£ per tonne)						Ring turnover 40,850 tonne
Cash	1320-30	1233-4	1400/1340	1335-40		
3 months	1155-6	1135.5-6.5	1175/1151	1156-7	1152-4	70,914 lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1260-80	1180-90		1250-300		
3 months	1120-30	1100-10		1120-30		36 lots
Silver (US cents/fine ounce)						Ring turnover 10,000 ozs
Cash	641-4	636-41		641-2		
3 months	652-5	646-52		652-5		555 lots
Lead (£ per tonne)						Ring turnover 4,300 tonne
Cash	337-8	336-8	338.5/336	338-9		
3 months	328-8.5	328-9	327/326	328-8.5	328-6	10,858 lots
Nickel ($ per tonne)						Ring turnover 2,034 tonne
Cash	16600-800	17000-100	16900	16800-7000		
3 months	13500-700	14000-50	13800/13500	13450-550	13600-50	5,856 lots
Zinc (£ per tonne)						Ring turnover 10,225 tonne
Cash	602-3	605.5-6.5	607	606.5-7		
3 months	586-6.5	586.5-8.5	600.5/592	600-1	593-4	13,120 lots

POTATOES £/tonne

	Close	Previous	High/Low
May	47.0	65.0	65.0 45.0
Nov	85.0	85.5	85.5 85.0
Feb	95.0	95.0	
Apr	125.3	125.5	125.3 124.9
May	135.0	137.0	

Turnover: 326 (187) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Jun	129.60	128.00	129.50 129.00
Aug	128.80	127.00	128.60 127.50
Oct	130.00	128.00	129.00
Dec	133.00	131.00	
Feb	135.00	134.50	
Apr	135.60	135.50	

Turnover: 115 (60) lots of 100 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Jly	1400.0	1445.0	1425.0 1400.0
Oct	1478.0	1520.0	1515.0 1470.0
Jan	1490.0	1480.0	1490.0 1480.0
Apr	1490.0	1544.5	1515.0 1490.0
Jly	1375.0	1362.5	1387.5
Oct	1480.0	1480.0	1480.0
BFI	1391.0	1387.0	

Turnover: 671 (1052)

COTTON

Liverpool- Spot and shipment sales for the week ending May 6 amounted to 1,226 tonnes against 718 tonnes in the previous week. Operations were fairly high with interest and sales in a wide variety of growths.

JUTE

C and f Dundee BTC $530, BWC $520, BTD $450, BWD $445; c and f Antwerp BTC $500, BWC $480, BWD $420, BTD $430.

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	446¾-447¼	237½-238
Opening	447¼-447¾	237¾-238
Morning fix	447.1	237.25
Afternoon fix	446.65	237.39
Day's high	447¼-447¾	
Day's low	446¼-446¾	

Coins	$ price	£ equivalent
US Eagle	460-465	244½-247½
Maple leaf	460-465	244½-247½
Britannia	460-465	244½-247½
Krugerrand	446-449	237-239
1/2 Krug	235-241	125¼-128
1/4 Krug	115-123	61¼-65½
Angel	439-463	243¾-245¾
1/10 Angel	46-51	24½-27½
New Sov.	105-108	55¾-57½
Old Sov.	105-106½	55¾-56½
Noble Plat	546.4-552.75	290.15-93.35

Silver fix	p/fine oz	US cts equiv
Spot	342.60	645.00
3 months	349.85	656.85
6 months	357.50	670.30
12 months	373.75	697.65

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	July	Sept	July	Sept
2150	331	234	27	170
2300	221	159	65	251
2450	138	119	135	347
Aluminium (99.5%)	Calls		Puts	
2130	300	222	45	145
2200	229	155	83	226
2450	133	104	165	322
Copper (Grade A)	Calls		Puts	
2100	161	132	56	114
2200	105	89	99	169
2300	64	59	158	236

US MARKETS

Reports that the U.S. may be looking to *tighten sanctions against South Africa* prompted trade buying and mixed short-covering in platinum, reports Drexel Burnham Lambert. Stops were elected as the market rallied which caused spill-over buying in the gold and silver. Profittaking towards the close pared gains. Copper rallied in early trading on trade and commission house short-covering, but profittaking saw the market fall back slightly. Energy futures continued to hold in a narrow range with local activity dominating as the markets awaited today's A.P.I. statistics. Coffee rallied on fund and speculative short-covering, cocoa was featureless, while sugar, after easing on producer selling, rallied to close higher as trade and commission buying brought values back from the lows. The meats were all quiet and roughly unchanged on the day as all the futures markets exhibited nervousness about possible erosion of cash prices despite the firm undertone in the cash market.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
May	450.1	447.3	446.5	446.5
Jun	451.5	448.4	452.7	448.0
Jul	453.9	451.0	0	0
Aug	456.1	453.2	457.3	452.5
Oct	461.5	458.2	457.6	457.2
Dec	466.2	463.0	457.0	462.1
Feb	471.5	468.2	468.0	468.0
Apr	476.9	473.4	0	0
Jun	482.4	478.8	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
May	541.7	536.0	533.0	533.0
Jul	545.2	538.5	547.0	536.7
Oct	551.2	545.4	553.0	541.5
Jan	557.0	551.5	558.0	548.0
Apr	562.6	557.6	564.5	557.0
Jul	568.2	564.3	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
May	657.0	647.0	657.0	646.0
Jun	659.5	649.5	0	0
Jul	664.5	654.5	666.0	650.5
Sep	673.1	663.0	675.0	660.0
Dec	687.2	677.0	690.0	675.0
Jan	691.8	681.5	0	0
Mar	701.7	691.2	702.0	690.5
May	711.8	701.0	0	0
Jul	721.9	711.1	713.0	710.0
Sep	732.3	721.3	0	0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	101.90	100.65	102.70	101.20
Jul	98.50	97.20	98.50	96.50
Sep	95.50	94.65	95.95	94.80
Dec	91.70	90.55	91.90	91.10
Jan	90.65	89.65	0	0
Mar	87.30	86.65	87.50	86.80
May	86.40	85.85	0	0
Jul	85.60	84.90	84.60	84.60
Sep	84.60	83.20	0	0
Dec	82.40	82.60	0	0
Jan	81.60	81.80	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Jun	17.44	17.54	17.81	17.41
Jul	17.57	17.83	17.85	17.00
Aug	17.39	17.63	17.63	17.52
Sep	17.57	17.60	17.00	17.50
Oct	17.54	17.68	17.56	17.46
Nov	17.60	17.75	[illegible]	[illegible]
Dec	17.37	17.44	17.37	17.37
Jan	17.30	17.40	0	0
Feb	17.30	17.36	0	0

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Jun	47.80	47.67	47.90	47.35
Jul	48.80	48.77	48.95	48.40
Aug	47.15	47.17	47.25	46.70
Sep	47.70	47.72	47.80	47.45
Oct	48.25	48.27	48.45	48.05
Nov	49.00	48.97	49.00	48.80
Dec	49.50	49.42	49.50	49.25
Jan	49.50	49.37	[illegible]	[illegible]
Feb	49.50	48.38	49.50	48.50

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
May	1595	1585	1610	1600
Jul	1629	1635	1655	1625
Sep	1641	1646	1665	1635
Dec	1670	1670	1670	1662
Mar	1705	1707	1705	1700
May	1728	1734	0	0
Jul	1764	1756	0	0
Sep	1795	1785	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
May	134.99	133.70	135.75	134.20
Jul	137.57	135.71	137.00	135.50
Sep	137.95	136.95	138.10	136.80
Dec	139.35	138.03	139.30	138.00
Mar	139.50	138.60	139.00	139.00
May	140.65	139.25	0	0
Jul	141.00	140.45	0	0
Sep	141.50	140.45	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	8.91	8.87	8.92	8.75
Oct	9.05	8.96	9.01	8.85
Jan	8.70	8.70	0	0
Mar	8.94	8.85	9.00	8.86
May	8.98	8.85	9.03	8.91
Jul	9.00	8.97	9.05	8.95
Oct	9.09	[illegible]	[illegible]	[illegible]

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	62.58	63.15	63.55	62.85
Oct	59.34	58.93	59.25	59.15
Dec	58.08	58.44	58.65	57.70
Mar	58.85	58.50	59.05	58.45
May	58.95	58.85	59.20	58.90
Jul	59.30	59.10	59.30	59.30

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	172.20	171.00	172.20	171.40
Sep	167.30	165.55	167.40	165.60
Nov	163.00	161.90	163.00	161.90
Jan	158.70	157.40	158.00	157.75
Mar	154.65	153.50	155.00	153.75
May	154.65	153.50	0	0
Jul	154.65	153.50	0	0
Sep	154.65	153.50	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

May 10	May 9	mnth ago	yr ago
1730.6	1728.3	1721.2	1572.7

DOW JONES (Base: December 31 1974 = 100)

Spot	130.70	129.05	130.43	126.48
Futures	134.03	132.80	134.39	130.29

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
May	705/6	700/0	708/6	699/4
Jul	717/0	712/4	718/0	709/4
Aug	721/2	714/6	721/6	713/4
Sep	725/0	719/4	725/0	717/0
Nov	733/4	728/4	733/4	725/4
Jan	740/6	735/0	740/0	733/4
Mar	749/4	742/4	749/4	742/4
May	755/0	748/0	755/0	747/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
May	23.03	23.25	23.80	22.99
Jul	23.53	23.71	23.80	23.46
Aug	24.04	23.91	24.05	23.88
Sep	24.25	24.09	24.25	24.05
Oct	24.35	24.28	24.45	24.33
Dec	24.71	24.52	24.72	24.48
Jan	24.85	24.76	24.85	24.65
Mar	25.10	24.95	25.10	24.88
May	25.10	24.87	25.05	25.15

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
May	211.4	209.1	211.5	208.8
Jul	209.0	207.7	210.0	207.4
Aug	210.0	208.7	210.8	208.3
Sep	210.4	208.1	211.0	208.7
Oct	210.4	208.1	211.0	208.6
Dec	212.9	210.7	213.5	211.0
Jan	213.2	211.3	214.0	211.5
Mar	214.5	212.6	215.0	212.6
May	217.3	216.0	217.3	215.6

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
May	199/4	200/2	200/6	198/4
Jul	205/4	205/4	206/4	204/2
Sep	216/2	216/6	217/4	215/4
Dec	226/0	226/2	227/4	225/0
Mar	232/2	232/4	233/4	231/4
May	235/4	236/4	236/4	235/4
Jul	241/4	240/4	241/4	241/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
May	305/4	301/0	306/4	304/4
Jul	313/2	311/0	315/4	311/4
Sep	320/4	318/4	322/0	318/4
Dec	333/2	330/4	334/4	330/4
Mar	340/0	337/0	340/0	337/4
May	337/0	335/4	337/4	337/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	72.80	72.60	73.10	72.50
Aug	69.60	69.72	69.92	69.35
Oct	68.50	68.55	68.62	68.10
Dec	69.00	69.05	69.05	68.80
Feb	68.70	68.80	68.80	68.40
Apr	69.70	69.80	69.70	69.30
Jun	69.00	69.70	69.70	69.00

LIVE HOGS 30,000 lb; cents/lb

	Close	Previous	High/Low	
Jun	51.45	51.67	51.97	51.30
Jul	51.42	51.55	51.85	51.05
Aug	48.62	48.75	48.95	48.32
Oct	44.70	44.85	45.00	44.50
Dec	45.43	45.65	45.65	45.20
Feb	45.45	45.80	45.65	45.30
Apr	43.00	42.80	43.10	42.60
Jun	45.00	45.35	45.10	44.90

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
May	51.32	51.55	51.75	51.00
Jul	51.82	51.77	51.95	51.42
Aug	51.00	51.02	51.20	50.75
Feb	60.40	60.67	60.85	60.40

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling pauses for breath

STERLING FAILED to capitalise on Monday's sharp gains and finished little changed in currency markets yesterday. Investors seemed to be reluctant to push the pound through the DM3.1700 level.

The Bank of England was likely to intervene in order to try and stop such a move. However, dealers stressed that the authorities appeared to be operating with one hand tied behind their backs, since fears about higher inflation made it difficult to use another cut in base rates, as a means of controlling demand for the pound.

Far East trading saw sterling break through technical resistance at $1.8840, which should have provided renewed upward impetus, but business started in London on a very lacklustre note. While volume was quite respectable, there was no serious attempt to push the pound to new highs.

Its exchange rates index finished at 78.5, unchanged from Monday, after opening at 78.6. The pound rose to $1.8820 from $1.8795 but slipped against the D-Mark to DM3.1575 from DM3.1625. It was also lower in terms of the yen at Y234.25 compared with Y234.50. Elsewhere it fell to SFr2.6250 from SFr2.6325 and FFr10.7075 from FFr10.7225.

The dollar was confined to a very narrow range before slipping to finish towards the day's lows. Dealers stressed that there were too many key factors due over the next week to risk taking out fresh positions now. Apart from the US Treasury's refunding programme, which started last night with $8.75bn of three-year notes, traders were also awaiting the release next week of US and Japanese trade figures.

Against the D-Mark, the dollar fell to DM1.6780 from DM1.6820 and Y124.40 from Y124.80 in yen terms. Elsewhere it closed at SFr1.3940, down from SFr1.4005 and FFr5.6900 compared with FFr5.7050. On Bank of England figures, the dollar's exchange rate index fell from 92.8 to 92.6. A further rise in Euro-dollar rates failed to provide much support.

D-MARK-Trading range against the dollar in 1988 is 1.7120 to 1.5850. April average 1.6729. Exchange rate index 148.5 against 151.4 six months ago.

A lack of interest in the dollar left trading almost at a standstill in Frankfurt yesterday. The US Treasury's refunding package and the release of March trade figures next week appeared to attract most attention.

Despite a small increase in US interest rates, the Bundesbank left its money market intervention rate unchanged. The dollar closed at DM1.6780 from DM1.6805 on Monday. With several important statistics appearing over the next week, most investors seemed content to square their positions and wait.

JAPANESE YEN-Trading range against the dollar in 1988 is 131.15 to 122.75. April average 124.92. Exchange rate index 246.1 against 229.0 six months ago.

The dollar traded quietly in Tokyo, easing a little against the yen but remaining steady elsewhere. Attention tended to focus on tomorrow's 30-year US bond auction, regarded as the most important of the three tenders.

The US unit closed at Y124.65, down from Y124.85 in New York. Elsewhere sterling held on to most of its earlier gains, but finished just below its best level on light profit taking.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu May 10	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.4567	+2.35	+0.94	±1.5344
Danish Krone	7.85212	8.00750	+1.98	+0.57	±1.5404
German D-Mark	2.05853	2.07815	+0.95	-0.46	±1.0981
French Franc	6.90403	7.04392	+2.03	+0.62	±1.3674
Dutch Guilder	2.31943	2.33027	+0.47	-0.94	±1.5012
Irish Punt	0.768411	0.778055	+1.26	-0.15	±1.6684
Italian Lira	1483.58	1545.62	+4.18	-3.31	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

May 10	Latest	Previous Close
£ Spot	1.8820-1.8830	1.8810-1.8820
1 month	0.15-0.13pm	0.14-0.13pm
3 months	0.40-0.36pm	0.40-0.37pm
12 months	1.80-1.70pm	1.80-1.70pm

Forward premiums and discounts apply to the US dollar

POUND SPOT- FORWARD AGAINST THE POUND

May 10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8800-1.8840	1.8815-1.8825	0.14-0.11cpm	0.80	0.38-0.33pm	0.75
Canada	2.3270-2.3320	2.3295-2.3305	0.14-0.24cdis	-0.98	0.44-0.57dis	-0.87
Netherlands	3.53¾-3.54¾	3.53¾-3.54¾	1¼-1cpm	3.81	3½-3¼pm	4.02
Belgium	65.90-66.15	66.00-66.10	17-1cpm	1.64	42-28pm	2.12
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STERLING INDEX

	May 10	Previous
[illegible]	[illegible]	[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

May 10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY RATES

May 10	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY MOVEMENTS

May 10	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

EURO-CURRENCY INTEREST RATES

May 10	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

May 10	£	$
[illegible]	[illegible]	[illegible]

EXCHANGE CROSS RATES

May 10	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FINANCIAL FUTURES

Trading lacks incentives

ACTIVITY ON the London futures market was very subdued yesterday. Dealers said the volume on long term gilt futures was the lowest since "big bang" 18 months ago, indicating the general lack of incentive to adopt positions at present.

June long gilts moved in a very narrow range on Liffe, between 119-31 to 120-06, to close unchanged at 120-04.

The present level of stop loss selling orders is in the region of 119-20 to 119-21, following the sharp plunge in the contract to a low of 119-22 on April 28. But this is well below the current trading range, and without a fresh incentive it seems unlikely there will an early attempt to hit these stops.

At the same time it will probably take a rise in UK bank base rates, and a steepening of the yield curve, to encourage significant buying of long gilts. The strength of sterling makes this equally unlikely in the immediate future.

Turnover in three-month sterling deposit futures was on roughly the same level as long gilts. June delivery closed at 91.42, compared with 91.41 on Monday.

Dealers commented that the greatest potential for movement appeared to be from profit taking, if the pound fails to maintain its renewed surge of strength seen on Monday.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
114	608	—	0	—
116	409	—	1	—
118	214	—	6	—
120	43	—	35	—
122	6	—	162	—
124	1	—	357	—
126	0	—	556	—

Estimated volume total, Calls 1643 Puts 1949
Previous day's open int. Calls 53002 Puts 40232

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
80	730	661	0	31
82	532	523	2	57
84	334	357	4	127
86	145	242	15	212
88	29	147	63	317
90	6	101	240	435
92	2	36	436	606

Estimated volume total, Calls 26 Puts 0
Previous day's open int. Calls 3876 Puts 1541

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements MAY	Calls-settlements Jun	Puts-settlements MAY	Puts-settlements Jun
16500	1345	1420	5	80
17000	871	1017	31	177
17500	470	682	130	342
18000	197	424	357	584
18500	61	244	721	904
19000	14	129	1174	1289
19500	2	63	1662	1723

Estimated volume total, Calls 7 Puts 2
Previous day's open int. Calls 75 Puts 100

LIFFE £/$ OPTIONS

Strike Price	Calls	Puts
[illegible]	[illegible]	[illegible]

LIFFE EURODOLLAR OPTIONS

Strike Price	Calls	Puts
[illegible]	[illegible]	[illegible]

LIFFE SHORT STERLING

Strike Price	Calls	Puts
[illegible]	[illegible]	[illegible]

PHILADELPHIA SE £/$ OPTIONS

Strike Price	Calls	Puts
[illegible]	[illegible]	[illegible]

LONDON SE £/$ OPTIONS

Strike Price	Calls	Puts
[illegible]	[illegible]	[illegible]

LONDON (LIFFE)

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHICAGO

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY FUTURES

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MONEY MARKETS

Nerves calmed

THERE WAS little change in interest rates on the London money market yesterday, while in New York and Frankfurt action by the Federal Reserve and Bundesbank tended to relieve some of the nervousness about tighter monetary policy.

This week's surge by sterling has quelled fears that UK bank base rates are about to rise, and three-month interbank was unchanged at 8¾-8⅝ p.c.

The Bank of England initially forecast a money market shortage of £900m, but revised this to £850m at noon. Total help of £711m was provided.

UK clearing bank base lending rate 8 per cent from April 11

An early round of assistance was offered, and at that time the authorities bought £571m bills outright, by way of £1m Treasury bills in band 1 at 7⅞ p.c.; £224m bank bills in band 1 at 7⅞ p.c.; £303m bank bills in band 3 at 7⅞ p.c.; and £41m bank bills in band 4 at 7⅞ p.c.

Before lunch the Bank of England purchased another £79m bills, through £33m bank bills in band 1 at 7⅞ p.c.; £40m bank bills in band 3 at 7⅞ p.c.; and £6m bank bills in band 4 at 7⅞ p.c.

In the afternoon the authorities bought £16m bills, via £15m bank bills in band 3 at 7⅞ p.c., and £1m bank bills in band 4 at 7⅞ p.c. Late assistance of £45m was also provided.

Bills maturing in official hands, repayment of late assistance, and a take-up of Treasury bills drained £303m, with the unwinding of repurchase agreements on bills absorbing £1,140m, and bank balances below target 230m. These factors were partly offset by Exchequer transactions adding £505m to liquidity, and a fall in the note circulation of £50m.

In New York the Federal Reserve added funds to the banking system through two-day system repurchase agreements. There had been speculation the Fed would use the less forceful method of adding liquidity through customer repurchase agreements, as part of a general tightening of its monetary stance.

In Frankfurt call money was unchanged at 3.30 p.c. The market was said to be relieved that the West German Bundesbank offered 34-day funds at this week's securities repurchase agreement tender, at an unchanged 3.25 p.c.

FT LONDON INTERBANK FIXING

(11.00 a.m. May 10)	3 months US dollars	6 months US Dollars
[illegible]	[illegible]	[illegible]

MONEY RATES

NEW YORK

[illegible]	[illegible]

May 10	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

May 10	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Company Notices

BSN GROUPE

FRANCE'S LEADING FOOD AND BEVERAGE GROUP

RESULTS FOR THE FIRST QUARTER OF 1988

The BSN Group recorded consolidated sales of 9.91 billion French francs for the first quarter of 1988 compared with 9.01 billion French francs for the same period in 1987.

Sales by division break down as follows:

(in millions of French francs)	1988	1987
Dairy Products	2,660	2,527
Grocery Products	2,513	2,225
Biscuits	1,875	1,647
Beer	1,233	1,094
Champagne, mineral water	765	673
Containers	1,166	1,115
	10,202	9,271
Intra-Group sales	(291)	(257)
GROUP	9,911	9,014

On a comparable basis and unchanged exchange rates, the evolution by division is as follows:

Dairy Products	5.3%
Grocery Products	7.0%
Biscuits	4.3%
Beer	12.9%
Champagne, mineral water	12.5%
Containers	3.6%
GROUP	8.6%

EUROPEAN OPTIONS EXCHANGE

Series		May 88 Vol	May 88 Last	Aug. 88 Vol	Aug. 88 Last	Nov. 88 Vol	Nov. 88 Last	Stock
GOLD C	$460	40	0.60	27	11.90	–	–	$447.10
GOLD C	$540	–	–	40	1.40	–	–	$447.10
GOLD P	$400	–	–	50	2	140	3.50	$447.10
GOLD P	$420	40	0.10	–	–	–	–	$447.10
GOLD P	$440	100	1	25	8.50	53	11	$447.10
		May 88		Jun. 88		Jul. 88		
EOE Index C	Fl. 190	28	12.50	–	–	–	–	Fl. 202.53
EOE Index C	Fl. 200	288	4.30	13	8	6	9.60	Fl. 202.53
EOE Index C	Fl. 205	88	2.30	23	5.80	14	8 B	Fl. 202.53
EOE Index C	Fl. 210	113	1.20	364	3.60	30	5.20	Fl. 202.53
EOE Index C	Fl. 215	29	0.50 A	54	2.10 B	5	4	Fl. 202.53
EOE Index C	Fl. 220	6	0.20	22	1.20	32	2.50	Fl. 202.53
EOE Index C	Fl. 225	18	0.10	–	–	–	–	Fl. 202.53
EOE Index P	Fl. 190	60	1	230	3.50	–	–	Fl. 202.53
EOE Index P	Fl. 195	82	2	19	5.50	21	7.40	Fl. 202.53
EOE Index P	Fl. 200	352	3.50	211	7.30	68	9.80	Fl. 202.53
EOE Index P	Fl. 205	131	5.20	24	9.60	2	12.30	Fl. 202.53
EOE Index P	Fl. 210	44	9.60	19	12.60	1	15.50	Fl. 202.53
S/FI C	Fl. 190	25	0.30 B	17	1	287	1.70 0	Fl. 188.18
		Jul. 88		Oct. 88		Jan. 89		
ABN C	Fl. 40	52	0.70	64	1.30	2	2.10	Fl. 37.40
ABN P	Fl. 35	61	0.70	34	1.70	242	2	Fl. 37.40
AEGON C	Fl. 70	113	5	3	5.50	10	7.50	Fl. 74.50
AEGON P	Fl. 70	22	2.20	22	4 B	–	–	Fl. 74.30
AHOLD C	Fl. 65	30	6	–	–	–	–	Fl. 69.40
AHOLD P	Fl. 70	15	3.70	5	9.40	–	–	Fl. 69.40
AKZO C	Fl. 110	403	3.70	65	7.20	12	8.90	Fl. 106.70
AKZO P	Fl. 110	237	6.70	8	9.30 A	11	10.70	Fl. 106.70
AMEV C	Fl. 60	35	0.80	16	1.50	104	2.80	Fl. 52.50
AMEV P	Fl. 50	11	2.30	198	3.50 B	–	–	Fl. 52.50
AMRO C	Fl. 60	38	4	–	–	61	5.80	Fl. 62.30
AMRO P	Fl. 60	22	1.30	17	3	5	3.30	Fl. 62.30
BUHRMANN-T C	Fl. 50	83	0.50	130	1.60	44	2.20	Fl. 45.50
BUHRMANN-T P	Fl. 45	54	2.90 A	10	4.50	6	4.10	Fl. 45.50
ELSEVIER C	Fl. 55	113	1	6	1.80 B	90	3 A	Fl. 49.70
ELSEVIER P	Fl. 50	76	2.30	18	3.70	–	–	Fl. 49.70
GIST-BROC. C	Fl. 30	124	2.50	9	3.80	–	–	Fl. 30.60
GIST-BROC. P	Fl. 35	28	5	123	6	130	6.50	Fl. 30.60
HEINEKEN C	Fl. 130	20	3	3	5.20 A	3	7	Fl. 123.50
HEINEKEN P	Fl. 120	18	3.50 B	9	5.50	–	–	Fl. 123.50
HOOGOVENS C	Fl. 40	122	1.20	17	2.80	2	3.70	Fl. 37
HOOGOVENS P	Fl. 35	111	1.70	192	3.60	23	4.30	Fl. 37
KLM C	Fl. 35	320	1.80	139	2.60	1	3.70 A	Fl. 34.40
KLM P	Fl. 35	80	2.20	281	3.70	9	4.40	Fl. 34.40
KNP C	Fl. 136.40	35	1.80	–	–	–	–	Fl. 126.70
KNP P	Fl. 118.20	80	1.60	–	–	–	–	Fl. 126.70
KNP C	Fl. 130	57	9.20	2	7.20	3	9	Fl. 126.70
KNP P	Fl. 130	52	6.10	–	–	1	10.50	Fl. 126.70
NEDLLOYD C	Fl. 260	71	5.30	10	12	–	–	Fl. 238.50
NEDLLOYD P	Fl. 230	53	11	2	17.50	30	21.50	Fl. 238.50
NAT.NED. C	Fl. 50	265	5.20 B	5	6.20	–	–	Fl. 54.80
NAT.NED. P	Fl. 55	107	2.70	8	3.80	1	5.30	Fl. 54.80
PHILIPS C	Fl. 30	252	0.50 B	118	1.30	95	1.80	Fl. 27.20
PHILIPS P	Fl. 30	201	3.20	65	3.40	113	9.40	Fl. 27.28
ROYAL DUTCH C	Fl. 230	377	4	90	6.50	2	10.20	Fl. 229.50
ROYAL DUTCH P	Fl. 230	153	12 A	32	16.50	–	–	Fl. 229.50
ROBECO C	Fl. 90	–	–	20	3.10	–	–	Fl. 88
ROBECO P	Fl. 85	4	2.30	80	3.50	–	–	Fl. 88
UNILEVER C	Fl. 110	80	2.50	86	5.50	12	7.80	Fl. 104.30
UNILEVER P	Fl. 110	313	8	12	10.50	1	12	Fl. 104.30

TOTAL VOLUME IN CONTRACTS : 21,785

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

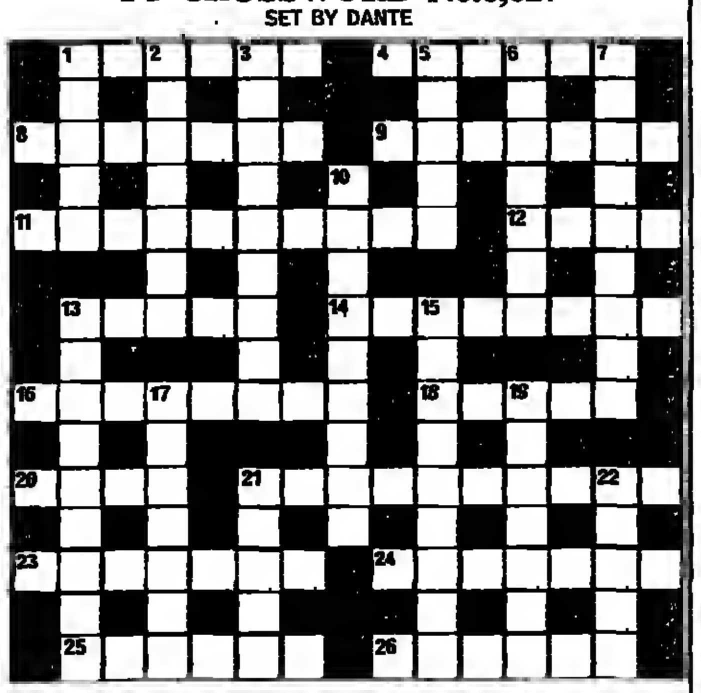
	%		%		%
ABN Bank	8	Citibank NA	8	Nat. Bk. of Kuwait	8
Adam & Company	8	City Merchants Bank	8	NatWestminster	8
AAB - Allied Arab Bk	8	Clydesdale Bank	8	Northern Bank Ltd	8
Allied Irish Bank	8	Comm. Bk. N. East	8	Norwich Gen. Trust	8
Henry Ansbacher	8	Co-operative Bank	*8	PK Finans. Intl(UK)	9
ANZ Banking Group	8	Cyprus Popular Bk	8	Provincial Bank PLC	9
Associates Cap Corp	10	Dunbar Bank PLC	8	R. Raphael & Sons	8
Authority Bank	8	Duncan Lawrie	8	Roxburghe G'rantee	9½
B & C Merchant Bank	8	Equatorial Bank plc	8½	Royal Bk of Scotland	8
Banco de Bilbao	8	Exeter Trust Ltd	8½	Royal Trust Bank	8
Bank Hapoalim	8	Financial & Gen. Sec	8	Smith & Williams Secs.	8
Bank Leumi (UK)	8	First National Bank Plc	9	Standard Chartered	8
Bank Credit & Comm	8	● Robert Fleming & Co.	8	TSB	8
Bank of Cyprus	8	Robert Fraser & Ptnrs.	9	UDT Mortgage Exp	$9.4
Bank of Ireland	8	Girobank	8	United Bk of Kuwait	8
Bank of India	8	Grindlays Bank	8	United Mizrahi Bank	8
Bank of Scotland	8	● Guinness Mahon	8	Unity Trust Bank Plc	8
Banque Belge Ltd	8	HFC Bank PLC	8	Western Trust	8
Barclays Bank	8	● Hambros Bank	8	Westpac Bank Corp.	8
Benchmark Bank PLC	8	Heritable & Gen Inv Bk	8	Whiteaway Laidlaw	8½
Berliner Bank AG	8	● Hill Samuel	§8	Yorkshire Bank	8
Brit Bk of Mid East	8	C. Hoare & Co.	8		
● Brown Shipley	8	Hongkong & Shangh	8		
Business Mtge Tst.	8½	Lloyds Bank	8		
CL Bank Nederland	8	Meghraj Bank Ltd	8		
Central Capital	8	Midland Bank	8		
● Charterhouse Bank	8	Mount Bnkg Corp.	8		

● Members of British Merchant Banking & Securities Houses Association. * 7 day deposits 3.50% Sunrise 6.16%. Top Tier-£2,500+ at 3 months' notice 7.5%. At call when £10,000+ remains deposited. $ Mortgage base rate. § Demand deposit 3.00%. Mortgage 9.125% - 9.5%

JOTTER PAD

FT CROSSWORD No.6,627

SET BY DANTE



ACROSS

1 Cry out – to the police? (6)
4 Earlier reform movement (6)
8 Check a resolute defender of sport (3-4)
9 Hard stone field used for playing baseball (7)
11 Sell diaper designed to go on foot! (10)
12 Either way, it's high time (4)
13 Northern region about to hold sporting events (5)
14 Jabber, jabber! It has an inflammatory effect! (3-5)
16 *It means one can't get off at night* (8)
18 Round hole, egg-shaped (5)
20 Willingly have a new life (4)
21 Men creep so to get reward (10)
23 Drug is removed with the fingers (7)
24 Dressed in a dreary outfit (7)
25 Ways to get round little children's demands (6)
26 Man in the seat of power (6)

DOWN

1 Dancers may enjoy quick ones (5)
2 A shade of grievance (7)
3 Make sure as sure can be (9)
5 Lady-love with a bad upbringing (5)
6 It reminds me repeatedly not to change (7)
7 Get blooming old (3,2,4)
10 Wooden steps? (4,5)
13 May they keep aunties in change? (9)
15 Dull month for a military order (4,5)
17 It's the driver's right in Britain (7)
19 Seasoning duck with orange, perhaps (7)
21 Cook right on the oven (5)
22 Name of a good man the first *mate is after* (5)

Solution to Puzzle No.6,626

RUNTHE GAUNTLET
E A U B L O L R
PORTRAYAL TRACE
O C T E O A M N
RUIN ABOVEBOARD
T S P Y E I Y
ENSUITE RELICS
R U N I O S
PSYCHE PATRICK
S H I R Y N Y
CHAMPIGNON SCOW
U C E H F V I A
THORN TAILENDER
U R N V T R E D
MONEYBOX CADDIS

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Scottish Life Investments(z)
19 St Andrew Sq, Edinburgh 031-225 2211

Nelson (UK)	307.1	321.5	-1.5	2.78
Columbus (US)	125.2	131.8	-0.9	1.42
Marco Polo (Pac)	279.9	295.2	—	2.39
Da Vinci (Eur)	279.5	294.8	-1.0	1.98
Drake (WW)	52.7	54.4	-0.3	2.54

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

UK Equity	206.5	218.7	-1.7	2.59
UK Smllr Cos Eqty	212.6	226.2	-1.0	2.05
UK Spec Sits	63.1	67.2	+0.3	2.71
Income Plus	53.2	56.6	-0.2	5.29
European	157.6	167.7	-1.1	1.14
Far Eastern	52.8	56.2	-0.8	1.98
Japanese F	57.3	61.0	—	—
North American	106.4	113.9	-0.8	1.50
Intl Growth	107.0	113.9	-0.6	0.86
Worldwide Venture	52.7	56.1	-0.4	3.06

Scottish Provident Inv. Mgt. Ltd
6 St Andrew Sq, Edinburgh EH2 2YA 031-556 2591/2/3

Equity Growth Acc	17.51	18.74	-0.06	2.99
Equity Growth Inc	17.33	18.55	-0.07	2.99
Intl Growth Acc	16.74	17.92	-0.11	1.69
Intl Growth Inc	16.65	17.82	-0.11	1.69
Global Income Acc	18.54	19.84	-0.03	5.41
Global Income Inc	18.54	19.84	-0.03	5.41
Market Leaders Acc	16.51	17.67	-0.18	5.61
Market Leaders Inc	16.28	17.43	-0.18	3.61

Scottish Unit Managers
45 Melville Street, Edinburgh EH3 7HF 031-226 4372

Pacific (z)	84.6	89.9	-0.2	0.00
Income	52.6	55.9	-0.3	4.37
European (z)	35.6	35.7	-0.5	1.19
Nth American (z)	26.7	28.4	-0.3	0.81
Intl Growth	434.9	462.6	-1.7	1.97
Gwth & Recovery	48.6	51.7	—	2.37

Scottish Widows' Fund Management
PO Box 902, Edinburgh EH16 5BU 031-668 3724

Peg Equity Acc	320.1	340.6	-2.2	3.58
Peg Equity Inc	265.5	282.5	-1.8	3.58
Peg High Inc Acc	161.3	171.7	-0.3	4.55
Peg High Inc	149.1	158.7	-0.3	4.55
Peg Europe Acc	118.6	126.1	-1.3	1.74
Peg Europe Inc	115.4	122.8	-1.3	1.74
Peg Nth Amer	81.7	87.0	-1.3	1.79
Peg Nth Amer Inc	79.3	84.6	-1.1	1.79
Peg Pacific Acc	237.6	252.9	-2.3	—
Peg Global Acc	119.3	127.0	-0.8	2.46

Vanguard Trust Managers Ltd — Contd.

American & Gen	52.9	56.3	-0.5	1.95
(Accum Units)	54.9	57.9	-0.5	1.95
Growth	217.6	231.5	+0.1	2.43
(Accum Units)	328.2	349.1	-0.1	2.43
High Yield	274.6	292.2	-0.1	4.35
(Accum Units)	294.7	313.5	-0.1	4.35
Special Sits	53.6	57.0	+0.1	2.35
(Accum Units)	55.3	58.8	+0.1	2.35
Trustee	161.3	171.6	-0.2	4.05
(Accum Units)	262.2	278.9	-0.4	4.05
European Inc	35.6	37.9	-0.4	0.68
(Accum Units)	35.8	38.1	-0.4	0.68

Wardley Unit Trust Managers Ltd (a)
99, Bishopsgate, London, EC2P 2LA 01-374 0563

American	48.7	52.0	-0.6	1.6
Intl Growth	64.1	68.5	-0.5	0.4
Income	112.5	120.4	-0.7	5.5
Japan Growth	185.3	198.2	-0.6	0.1
Pacific Perf	115.3	123.4	-0.2	0.4
Small Co's	139.9	149.7	-0.6	1.5
Technology	32.3	34.5	-0.3	0.1
Australia	48.6	51.9	-0.2	1.3
UK Trust	198.3	209.3	-1.7	2.7
European Growth	40.3	43.1	-0.3	0.1
Hong Kong	25.5	27.5	-0.4	1.3
Intl Income	19.3	20.7	-0.3	8.5
S'pore & Mlysn Gth	18.9	19.2	-0.3	1.0
British Wrnnts	24.8	26.6	-0.2	4.0

Waverley Asset Management Ltd (a) (z) (g)
13 Charlotte Sq, Edinburgh 031-225 1551

Australasian Gold	18.1	19.2	+0.1	0.00
Pacific Basin	22.1	23.5	-0.1	0.1
Can Balanced Gwth	43.9	46.7	-0.4	0.0
Global Inc	97.6	102.7	-0.1	8.6
Penny Share	27.5	29.2	-0.2	0.5

Wellington Fund Mngrs Ltd
2, London Bridge, SE1 01-407 4404

Wellington Income	127.1	134.0	—	4.35
Wellington Growth	168.9	179.7	—	1.48

Wessex Asset Management
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432

Wessex UK Gwth	93.5	97.3	-0.1	—

Whittingdale Unit Trust Management Ltd
2 Honey Lane, London EC2V 8BT 01-606 3132

Challenger	53.5	54.3	—	—
Short Dtd Gilt	77.2	78.2	+0.1	—
U.S. Govmt Bond	50.528	0.529	—	—

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd

Prudential Assurance Co

Royal Heritage Life Assurance Ltd—Contd.

Skandia Life Assurance Co Ltd—Contd.

TSB Life Ltd

Lamont & Partners Plc

Allied Dunbar International Fund Mgrs.

Citibank—Contd.

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
[illegible]	[illegible]	Treas 9¾pc Cv '88	[illegible]		[illegible]	7.79
[illegible]	[illegible]	Transport 3pc '78-88	[illegible]		[illegible]	6.57
[illegible]	[illegible]	Treas. 9½pc '88	[illegible]		[illegible]	8.50
[illegible]	[illegible]	Treas 11½pc 1989	[illegible]		[illegible]	8.57
[illegible]	[illegible]	Treas 9½pc Cnv 1989	[illegible]	[illegible]	[illegible]	8.64
[illegible]	[illegible]	Treas 3pc 1989	[illegible]		[illegible]	6.37
[illegible]	[illegible]	Treas. 10¼pc 1989	[illegible]	[illegible]	[illegible]	8.78
102	[illegible]	Exch.10pc 1989	[illegible]	[illegible]	[illegible]	8.85
[illegible]	[illegible]	Exch 11pc 1989	[illegible]	[illegible]	[illegible]	8.82
[illegible]	[illegible]	Treas 5pc 1986-89	[illegible]	[illegible]	[illegible]	7.51
[illegible]	[illegible]	Exch 10¼pcCv '89	[illegible]	[illegible]	[illegible]	8.12
[illegible]	[illegible]	Treas 13pc 1990	[illegible]	[illegible]	[illegible]	8.80
[illegible]	[illegible]	Exch 11pc 1990	[illegible]		[illegible]	8.87
[illegible]	[illegible]	Exch. 12½pc 1990	[illegible]	[illegible]	11.79	[illegible]
[illegible]	[illegible]	Treas. 3pc 1990	[illegible]	[illegible]	3.23	6.82
[illegible]	[illegible]	Treas 8¼pc 1987-90	[illegible]		8.33	8.79
[illegible]	[illegible]	Treas. 8pc Cv 1990	[illegible]	[illegible]	8.00	7.97
[illegible]	[illegible]	Treas. 10pcCv 1990	[illegible]	[illegible]	9.78	8.95
[illegible]	[illegible]	Exch 2½pc 1990	[illegible]	[illegible]	2.76	6.66
[illegible]	[illegible]	Treas 11¾pc 1991	[illegible]	[illegible]	11.05	9.01
[illegible]	[illegible]	Funding 5¾pc '87-91	[illegible]	[illegible]	6.12	8.13
[illegible]	[illegible]	Treas. 3pc 1991	[illegible]		3.37	7.11
[illegible]	[illegible]	Treas 10pc Cv '91	[illegible]	[illegible]	9.67	8.73
[illegible]	[illegible]	Exch. 11pc 1991	[illegible]	[illegible]	10.41	9.03
[illegible]	[illegible]	Treas. 8pc 1991	[illegible]	[illegible]	8.25	9.01
[illegible]	[illegible]	Treas 12¾pc 1992	[illegible]	[illegible]	11.46	9.09
[illegible]	[illegible]	Treas 10pc 1992	[illegible]	[illegible]	[illegible]	9.05
[illegible]	[illegible]	Treas. 8pc 1992	[illegible]	[illegible]	[illegible]	9.03
[illegible]	[illegible]	Treas 10½pc Cv 1992	[illegible]	[illegible]	[illegible]	9.11
[illegible]	[illegible]	Treas. 3pc 1992	[illegible]	[illegible]	[illegible]	7.17
[illegible]	[illegible]	Exch. 12¼pc '92	[illegible]	[illegible]	[illegible]	9.19
[illegible]	[illegible]	Exch 13½pc 1992	[illegible]	[illegible]	[illegible]	9.21

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

1988 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
33½	27⅞	Sun Co. Inc. $1	30⅛		$3[illegible]	–	5.5
28⅝	22⅞	TRW Inc. 62½c	22⅞	–⅛	[illegible]	–	3.9
25⅝	11¼	Tenneco $5	22⅝	–⅛	$3[illegible]	–	7.3
27⅞	19⅞	Texaco $6.25	26⅞	–1	[illegible]	–	6.1
52⅞	43¼	Time Inc. $1	46¾	–⅛	$1[illegible]	–	1.2
20⅝	15¾	Transamerica $1	17	–⅛	[illegible]	–	5.9
10⅝	754p	Transworld Corp $5	984p	–54	[illegible]	–	1.2
20⅝	15	TRINOVA Corp	15¾	–⅛	[illegible]	–	2.0
19	15¼	♦USX $1	17	–⅛	[illegible]	–	3.9
23	17¾	Utd Technologies	20⅝	–⅛	[illegible]	–	4.3
31⅝	26¾	US West‡	27¾	–¼	[illegible]	–	7.0
21¼	16⅞	Waste Management $1	18	–⅛	[illegible]	–	1.1
16⅞	12⅞	Whirlpool $1	13⅞	+⅛	–	–	–
32⅞	18¼	♦Woolworth $3½	29¼	–1⅛	$1[illegible]	–	3.1

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INSURANCES

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

INSURANCES—Contd

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✤ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- ψ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ± Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ¶ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... γ	71	......
Craig & Rose £1.. γ	688	......
Finlay Pkg. 5p.... γ	79	+1
Holt (Jos) 25p.... γ	£11½	......

Arnotts............ γ	310	......
CPI Hldgs.......... γ	98	......
Carrol Inds........ γ	150	......
Hall (R. & H.).......	140	......
Heiton Hldgs...... γ	41	+1
Irish Ropes........ γ	123	......
Unidare............ γ	350	+10

IRISH

Nat. 9¾% 84/89..	£101	......
9pc Cap Ln. 1996..	£98¼	......
Fin. 13% 97/02...	£118¼	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	15
BAT	45
BOC Grp	40
BSR	10
BTR	28
Barclays	48
Beecham	46
Blue Circle	42
Boots	26
Bowaters	38
Brit. Aerospace	35
Brit. Telecom	22
Burton Ord	24
Cadburys	26
Charter Cons	32
Comm Union	35
Courtaulds	34
FKI Babcock	14
FNFC	25
Gen Accident	85
GEC	15
Glaxo	110
Grand Met	42
GUS 'A'	110
Guardian	87
GKN	30
Hanson	14
Hawker Sidd	48
ICI	100
Jaguar	35
Ladbroke	38
Legal & Gen	30
Lex Service	35
Lloyds Bank	28
Lucas Inds	62
Marks & Spencer	20
Midland Bk	35
Morgan Grenfell	35
NEI	10
Nat West Bk	68
P & O Dfd	52
Plessey	16
Polly Peck	32
Racal Elect	22
RHM	35
Rank Org Ord	68
Reed Intnl	45
STC	25
Sears	14
TI	35
TSB	12
Tesco	16
Thorn EMI	69
Trust Houses	22
T&R	28
Unilever	58
Vickers	18
Wellcome	42

Property	
Brit Land	28
Land Securities	48
MEPC	48
Peachey	48

Oils	
Brit Petroleum	25
Britoil	58
Burmah Oil	45
Charterhall	6
Premier	8
Shell	118
Tricentrol	18
Ultramar	24

Mines	
Cons Gold	100
Lonrho	29
RTZ	38

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

LONDON STOCK EXCHANGE

Account Dealing Dates			
	Option		
*First Dealings	Declarations	Last Dealings	Account Day
Apl 25	May 5	May 6	May 16
May 9	May 19	May 20	May 31
May 23	Jun 2	Jun 3	Jun 13

*New time dealings may take place from 9.00 am two business days earlier.

Sensitive equity market reduces loss as Wall Street stages early unexpected recovery

THE SHADOW of stronger sterling continued to fall across UK security markets, inhibiting business in both the bond and equity sectors yesterday. Although the exchange rate failed to hold fresh early gains on the dollar and D-Mark, it gave little impression of weakening in London forex markets.

Equities were also affected by Wall Street which overnight fell below 2000 to record its fourth successive loss. A firmer Tokyo market yesterday provided no comfort for either the UKinvestment institutions or private investors.

The FT-SE index opened 12 points down with marketmakers taking few chances of being hit by a repetition of selective selling encountered before the official start of business. A small management fund was thought to have sold limited quantities of blue chip issues, including some of the major exporters.

"Footsie" index futures were watched closely as word went round that the previous day's large seller may not have completed his order. The June contract continued to trade at a discount but market interest was diverted by the announcement regarding the General Cinema stake in Cadbury Schweppes. The Secretary of State for Trade & Industry has decided not to refer the US group's shareholding of 18.2 per cent to the Monopolies & Mergers Commission.

Cadbury Schweppes surged higher and a number of situation shares, which had been showing frustration earlier over the lack of bid or other developments, began to rally. The news has little significance for Rowntree, which may or may not receive a referral to the MMC, but more heavy traffic in the shares indicated bidder Nestlé was still increasing its stake, last reported at around 11 per cent.

Before mid-session the tone weakened again and traders began to recall weekend advice on short-term equity trends. Mr Nick Whitney of Warburg Securities said the market's unwillingness to respond to positive influences is disturbing, in the face of the large cash holdings by institutions. Despite isolated activity, as a consequence of real or supposed corporate activity in a handful of stocks, no sustained improvement in sentiment has developed. "Investors are avoiding the equity market because there is no resolution to well-known US problems," he concluded.

But Wall Street came to the rescue, defying expectations of another immediate downturn and moving quite sharply higher in the early trade. London gloom lifted and the FT-SE scurried forward to close only 2.3 lower on the day at 1792.6. UK shares traded totalled 409.1m compared with the previous session's 368m.

"We are out of fashion" commented a leading Gilt-edged trader after spirited early interest for the shorts suddenly faded. "Sterling's strength, in other circumstances, would have influenced the market favourably but at the moment it is difficult to see any solution to the current impasse between buyers and sellers."

Potential investors could be waiting for the outcome of this week's US Treasury refunding programme. This began yesterday with the auction of $8.75bn three-year notes to be followed by a similar amount of ten-year bonds today and $8.5bn of thirty-year stock tomorrow.

Conversely, they may be decide to retain a low profile until the dilemma facing the UK authorities over sterling and interest rates is resolved. Interest meantime in both Gilt futures and the cash market is suffering badly. Yesterday it was said to be at the lowest level since "big bang" in October 1986.

Consolidated Gold Fields, the London-based mining finance house where Harry Oppenheimer's Minorco has a 29 per cent stake and where GFSA/Driefontein jointly hold 8 per cent of the shares, raced higher late in the session to close 35 higher at 1000p amid rumours of an imminent "dawn raid".

Business in the shares was negligible up until the mid-afternoon when a surge of buying interest in Consgold traded options triggered strong demand for the underlying stock. There was also interest developing in the shares from Switzerland and the US; US mining group American Barrick holds a stake of around 1.5 per cent in Consgold. Turnover topped 1.5m shares. RTZ, spoken of as a potential bidder for Consgold, moved up 5 to 381p.

Amstrad's Alan Sugar duly delivered the goods at the company presentation to analysts and the Press at Amstrad's Brentwood headquarters. Amstrad revealed the long-awaited camera video recorder selling for £499 and also two new video recorders as well as *announcing* the purchase for £3.1m of the Fidelity brand name.

Amstrad shares, strongly supported for the past few trading sessions as rumours of the camcorder unveiling began to circulate, suffered a bout of profit-taking and slipped 3 to 176p, after turnover of 9m.

Cadbury-Schweppes, and to a slightly lesser extent Rowntree, returned to centre-stage following the non-referral of the General Cinema stake. Turnover in Cadbury-Schweppes expanded to 9.5m and the shares bounded 18 to 336p on the news which was interpreted by dealers as opening the way for General Cinema to up its stake further and pass it on to a possible US predators.

GEC easily topped the list of active stocks in the heavily-traded electronics grouping with some 19m shares listed as having changed hands. But this amount included two trades of 7.4m shares apiece erroneously punched into the SEAQ system and which should have read as two bargains of 7,450 shares apiece.

The 7.4m trades triggered a rush of activity in GEC before the error was made known and GEC shares dipped to 146p before closing a net penny off at 147p.

Goal Petroleum, along with Clyde Petroleum, Aran Energy and Carless Capel, captured the limelight in an oil and gas sector where the majors were barely *changed on the day*.

Goal proved the highlight in the sector, advancing 14¼ to 127½p amid talk that the well drilled on block 9/24b-3 in the North Sea had encountered oil; Goal has a 20 per cent stake in the well and BP the remaining 80 per cent. Carless Capel jumped 6 to 123p as reports that London Merchant Securities was preparing to sell on its near 25 per cent stake circulated in the market.

The Phillips and Drew "buy" prompted further good support of British Gas, 2¼ up at 176½p. Shell hardened a shade to 1062p ahead of the first quarter figures scheduled for today.

Bank shares struggled to register further progress despite the sector being given another "buy" recommendation, this time from County NatWest WoodMac. The securities house says banks "underperformed on the Barclays rights. But there is no future capital threat, trading is good and the LDC situation improving. Buy," says County.

Composite insnrances remained well supported with Royals well to the fore and finally 10 better at 434p ahead of the first quarter results due today. Sun Alliance edged up 6 to 921p. Commercial Union, reporting this morning, hardened to 343p.

USM-newcomer Lincoln House, formerly fully-listed William Morris Fine Arts, made a bright return yesterday. The company *announced last month* a capital reconstruction which inclnded the placing of new ordinary shares and warrants plus a rights issue to raise £2.5m of new money. In brisk trading, the nil-paid units rose to 9p, compared with an opening price of 1½p, while the ordinary and the warrants both finished at 7p and 3½p respectively.

Brewery leaders recommended by County NatWest Woodmac performed relatively well, although the sector experienced a lack of business. Allied Lyons finished only a shade easier at 406p, while Bass drifted off to 843p and Whitbread eased to 312p. Guinness showed no reaction to the disposal of the United Yeast Company to W and R Jacob for I£1.3m cash, settling unchanged at 310p. J.A.Devenish reacted after Monday's speculative burst ahead of a presentation to analysts today at its Redruth brewery and closed 5 down at 349p.

McCarthy and Stone's preliminary figures were judged by the market as acutely disappointing. Pre-tax profits of £9.8m compared with analysts estimates ranging from £10 to £11m and the shares fell away sharply to close 20 down at 473p. Dealers reported a sluggish day's trading elsewhere in the Building sector with most of the leaders drifting a few pence easier.

Currency worries made for subdued trading in ICI which settled a few pence easier on the day at 985p.

The recently unhappy stores sector provided a number of firm features, most notably Ratners, up 8 more to 259p, still stimulated by a couple of "buy" recommendations and talk of a visit by brokers and fund managers to the group's US operations in the near future. Marks and Spencer, under pressure for much of the day and sold down to 171p at one point, subsequently rallied to close a net 2 harder at 176p in front of today's preliminary figures which analysts are confident should come out around the £500m.

But Sears were a poor performer and finally 6 lower at 122p, after 120½p, as the preliminary results and subsequent meeting with analysts proved disappointing; turnover in Sears topped 9m.

Stead & Simpson, the Leicester-based shoe retailer and motor trader which attracted an £89.45m bid from property developer Clayform on Monday saw its ordinary vote-carrying shares jumped 150p to 1405p with dealers saying Clayform will have to up its offer to nearer the £15 a share mark to have any chance of success. The "A" non-voting shares were a penny lower at 128p.

Racal came under persistent selling pressure early in the day and retreated to close some 7 off at 315p on turnover of 4.6m. The selling was partly triggered by reports that the party intending to launch a bid for Racal before it announced the flotation of Vodafone, had changed its mind and was about to start unloading a stake of around 2 per cent accumulated in the weeks running up to the Vodafone news. Cable & Wireless, regarded as one of the favourites to bid for Racal, fell 4 to 325p.

Elsewhere, Holmes Protection dropped to 100p immediately following the lower preliminary profits but rallied to close unchanged at 110p.

Manganese Bronze provided one of the day's most outstanding features in the Engineering sector, moving ahead strongly following stakeholding news to close 13 higher at 252p. CH Industrials has agreed to acquire a further 9.9 per cent interest in MB thus increasing its holding to 20.37 per cent. Adwest continued to attract buyers and put on 10 further to 327p, while speculative activity left Laird Group 7 to the good at 242p.

Tate & Lyle's partial rebuffs in the US to its attempts to gain control of Staley Continental saw Tate shares sold down to 765p, a net fall of 13. Among other manufacturers Northern Foods ran into profit-taking and dipped 7 to 307p. Late support, however, lifted Fitch Lovell 6 to 274p and Freshbake 5 to 114p. Retailers were moving ahead after-hours amid talk that a "buy" circular on the sector is imminent. Tesco were prominent and added 3 at 154p.

Overshadowed by currency worries, International stocks passed yet another subdued trading session. Prices opened lower as sterling showed renewewd strength, but perked up a little in the wake of an early improvement on Wall Steet with the final tone being described as "steady". BOC's proposed joint venture with Dow Chemical of the US to exploit non-cyrogenic production of industrial gases failed to arouse any enthusiasm in the former which closed unlatered at 384p in a low volume of trade.

English China Clays, boosted over the past few weeks by RTZ bid suggestions, met with occasional profit-taking ahead of tomorrow's interim statement and drifted back to close 9 cheaper at 440p. Caparo, reflecting the sale of the Fidelity brand name to Amstrad, advanced 5¼ to 50p. Hunting Associated, still responding to the good preliminary figures, put on 5 further to 448p for a two-day rise of 35. Speculative activity left Benlox 5 to the good at 64p.

BAA, up a few pence more at 274p, continued to trade actively (some 4.6m shares changed hands) as the market awaited news of the group's possible bid for Lynton Property and Reversionary.

Stanhope again featured Properties, rising 9 more for a two-day gain of 38 to 383p on news of talks which could lead to a major investor taking a significant stake in the company.

Courtaulds slipped 9 to 380p reflecting currency considerations as well as recurring fears over speculation.

Rothmans gained 7 to 410p on bid hopes reinforced following reports that Rembrandt of South Africa, which has an approximate 30 per cent stake in the UK tobacco company, was planning a reorganisation of its international and domestic interests.

Among Financials, [illegible] Trust reacted sharply in the wake of disappointing preliminary figures to close 25 down at 150p. Business picked up in the traded options market where 16,764 calls and 15,121 puts for a total of 31,885 contracts. [illegible], after announcing disappointing results, attracted 3,783 calls and 3,190 puts. There were 1,228 calls and 321 puts in Cadbury-Schweppes, where the General Cinema stake was not referred to the MMC.

FINANCIAL TIMES STOCK INDICES

	May. 10	May. 9	May. 6	May. 5	May. 4	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	89.83	89.89	89.76	89.78	89.72	92.92	91.43 (18/4)	86.97 (13/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.57	97.20	97.25	96.86	97.22	98.35	98.31 (19/4)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1435.8	1438.0	1440.1	1430.7	1438.1	1670.4	1478.7 (4/3)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	198.2	198.5	201.7	199.2	198.6	428.1	312.5 (7/1)	198.2 (10/5)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.53	4.52	4.51	4.53	4.51	3.44				
Earnings Yld. % (full)	11.71	11.67	11.67	11.73	11.69	8.20				
P/E Ratio (net)(*)	10.46	10.51	10.47	10.42	10.47	15.05				
SEAQ Bargains (5pm)	22,321	24,297	35,681	29,537	29,727	52,941				
Equity Turnover (£m)	-	923.89	1727.61	1040.96	1152.23	1599.60				
Equity Bargains	-	30,393	39,526	34,384	31,866	68,455				
Shares Traded (ml)	-	360.0	586.6	408.2	360.3	643.4				

S.E ACTIVITY Indices	May.9	May.6
Gilt Edged Bargains	121.7	116.3
Equity Bargains	196.9	256.1
Equity Value	1867.4	3491.9
5-Day average		
Gilt Edged Bargains	177.0	119.0
Equity Bargains	216.5	217.1
Equity Value	2345.0	2405.8

♥ Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1427.1	1432.3	1433.0	1430.4	1430.4	1430.6	1434.2	1433.6

Day's High 1435.8 Day's low 1426.4

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil = 10.36.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 0898 123001

NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (58).

AMERICANS (1) CANADIANS (1) BREWERS (2) BUILDINGS (1) STORES (6) ELECTRICALS (5) ENGINEERING (2) FOODS (2) HOTELS (1) INDUSTRIALS (12) LEISURE (3) PAPERS (3) PROPERTY (6) TRUSTS (6) OILS (3) MINES (2), THIRD MARKET (1).

NEW LOWS ([illegible]).

AMERICANS (11) CANADIANS (4) STORES (2) FOODS (1) INDUSTRIALS (13) INSURANCE (1) LEISURE (1) PAPERS (1) PROPERTY (1) SHIPPING (1) TRUSTS (3) MINES (3).

Traditional Options

- First dealings May 3
- Last dealings May 13
- Last declarations July 28
- For Settlement Aug 8

For rate indications see end of London Share Service

Dealers reported another active day's trading in the Traditional option market. Stocks favoured for the call included Racal, A and M Group, North Kalgurli, British Petroleum partly-paid, Marler Estates, Northern Foods, Burford Group, Aran Energy, BSR, Eagle Trust, Cambium Venture, Control Techniques, Harris Queensway, Courtaulds, Helical Bar, Blacks Leisure and Holmes Protection. No puts were reported but double options were arranged in Boots, A. and M. Group and Northern Foods.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA Group	2,200	General Accident	[illegible]	Prudential	[illegible]
Allied-Lyons	987	General Elect.	[illegible]	Racal	[illegible]
Amstrad	9,000	Glaxo	[illegible]	Rank Org.	[illegible]
Argyll Group	2,800	Globe Investment	[illegible]	RMC	[illegible]
Assoc. Brit. Foods	140	Granada	[illegible]	[illegible]	[illegible]
BAA	4,600	Grand Met	[illegible]	[illegible]	[illegible]
BAT	1,700	GUS "A"	[illegible]	[illegible]	[illegible]
BET	785	Guardian R.E.	[illegible]	[illegible]	[illegible]
BICC	28	GKN	[illegible]	[illegible]	[illegible]
BOC	591	Guinness	[illegible]	RTZ	[illegible]
BPB Inds	531	Hammerson	[illegible]	[illegible]	[illegible]
BTR	566	Hanson	[illegible]	[illegible]	[illegible]
Barclays	1,300	Hawker Siddeley	[illegible]	[illegible]	[illegible]
Bass	375	Hillsdown Holdings	[illegible]	[illegible]	[illegible]
Beecham	506	IMI	[illegible]	[illegible]	[illegible]
Blue Arrow	458	ICI	[illegible]	[illegible]	[illegible]
Blue Circle	571	Jaguar	[illegible]	[illegible]	[illegible]
Boots	2,000	Ladbroke	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	[illegible]	[illegible]	[illegible]
Corporations, Dominion and Foreign Bonds	[illegible]	[illegible]	[illegible]
Industrials	[illegible]	[illegible]	[illegible]
Financial and Properties	[illegible]	[illegible]	[illegible]
Oils	[illegible]	[illegible]	[illegible]
Plantations	[illegible]	[illegible]	[illegible]
Mines	[illegible]	[illegible]	[illegible]
Others	[illegible]	[illegible]	[illegible]
Totals	544	950	[illegible]

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tuesday May 10 1988 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1988 to date	Mon May 9 Index No.	Fri May 6 Index No.	Thu May 5 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (207)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 Building Materials (29)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Contracting, Construction (34)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Electricals (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Electronics (32)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Mechanical Engineering (56)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 Metals and Metal Forming (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Motors (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 Other Industrial Materials (24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 CONSUMER GROUP (187)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers (21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing (23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing (15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health and Household (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Leisure (30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31 Packaging & Paper (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Publishing & Printing (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores (35)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS (93)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Agencies (19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals (20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates (14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Shipping and Transport (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Telephone Networks (2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Miscellaneous (26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (487)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (122)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (51)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial (30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (81)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
81 Mining Finance (2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
91 Overseas Traders (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (713)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Index No.	Day's Change	Day's High	Day's Low	May 9	May 6	May 5	May 4	May 3	Year ago
FT-SE 100 SHARE INDEX ♦	1792.6	-2.3	1792.6	1782.4	1794.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST

PRICE INDICES	Tue May 10	Day's change %	Mon May 9	xd adj. today	xd adj. 1988 to date
British Government					
1 5 years	123.81	+0.08	122.92	-	4.39
2 5-15 years	140.47	+0.07	140.38	-	4.60
3 Over 15 years	148.45	+0.10	148.30	-	6.10
4 Irredeemables	165.08	+0.31	164.58	-	6.88
5 All stocks	137.06	+0.08	136.96	-	4.76
Index-Linked					
6 5 years	125.94	-	125.94	-	0.51
7 Over 5 years	120.05	-0.11	120.18	-	1.18
8 All stocks	120.35	-0.10	120.47	-	1.12
9 Debentures & Loans	119.36	-0.10	119.27	-	4.49
10 Preference	92.37	+0.47	91.93	-	2.75

AVERAGE GROSS REDEMPTION YIELDS		Tue May 10	Mon May 9	Year ago (approx.)
British Government				
1 Low Coupons	5 years	[illegible]	[illegible]	[illegible]
2	15 years	[illegible]	[illegible]	[illegible]
3	25 years	[illegible]	[illegible]	[illegible]
4 Medium Coupons	5 years	[illegible]	[illegible]	[illegible]
5	15 years	[illegible]	[illegible]	[illegible]
6	25 years	[illegible]	[illegible]	[illegible]
7 High Coupons	5 years	[illegible]	[illegible]	[illegible]
8	15 years	[illegible]	[illegible]	[illegible]
9	25 years	[illegible]	[illegible]	[illegible]
10 Irredeemables		[illegible]	[illegible]	[illegible]
Index-Linked				
11 Inflation rate 5%	5yrs.	[illegible]	[illegible]	[illegible]
12 Inflation rate 5%	Over 5 yrs.	[illegible]	[illegible]	[illegible]
13 Inflation rate 10%	5yrs.	[illegible]	[illegible]	[illegible]
14 Inflation rate 10%	Over 5 yrs.	[illegible]	[illegible]	[illegible]
15 Debs & Loans	5 years	[illegible]	[illegible]	[illegible]
16	15 years	[illegible]	[illegible]	[illegible]
17	25 years	[illegible]	[illegible]	[illegible]
18 Preference		[illegible]	[illegible]	[illegible]

♦ Opening index 1782.8; 10 am 1787.2; 11 am 1788.1; Noon 1783.7; 1 pm 1783.9; 2 pm 1783.8; 3 pm 1789.0; 3.30 pm 1788.7; 4 pm 1788.8

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

LONDON TRADED OPTIONS

Option		CALLS Jul	CALLS Oct	CALLS Jan	PUTS Jul	PUTS Oct	PUTS Jan
Allied Lyons (*405)	390	32	38	48	18	25	32
	420	15	25	35	37	43	50
	460	6	15	23	67	70	75
Brit. Airways (*164)	140	27	30	32	3	5	9
	160	11	17	21	9	13	18
Brit. & Comm.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B.P.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bass	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cable & Wire	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cons. Gold	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Courtaulds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Com. Union	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
British Gas	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
G.E.C.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
G.K.N.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Grand Met.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
I.C.I.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jaguar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Land Securities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Marks & Spencer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brit. Telecom	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Rolls-Royce	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
STC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sainsbury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Shell Trans.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Storehouse	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Trafalgar House	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
T.S.B.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Unilever	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Woolworths	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		CALLS May	CALLS Aug	CALLS Nov	PUTS May	PUTS Aug	PUTS Nov
LASMO (*408)	360	49	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	390	22	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	420	6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
P. & O. (*560)	500	64	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	550	17	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pilkington	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Plessey	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Prudential	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Racal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
R.T.Z.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Vaal Reefs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amstrad	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Barclays	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Beecham	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Boots	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BTR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Blue Circle	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dixons	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Glaxo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hawker Sidd.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hanson	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lonrho	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Midland Bk	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sears	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tesco	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Trusthouse Forte	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thorn EMI	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Guinness	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wellcome	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conv. 9½% 2005	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tr. 12% 1995	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tr. 11¾% 03/07	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Index (*1789)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

May 10 Total Contracts 31,885 Calls 16,764 Puts 15,121
FT-SE Index Calls 1380 Puts 845
*Underlying security price.

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+or-	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | GERMANY | ITALY | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | AUSTRALIA | HONG KONG | SINGAPORE | JAPAN

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
Closing prices May 10

[illegible]

MONTREAL
Closing prices May 10

[illegible]

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued from Page 47

[illegible]

OldStn 1.58	21	146	19½	19	19½ + ¼	RoyIprs	23	165	2⅞	2¾	2¾	Telebs	16 100	14	13⅝	13¾ + ⅛	Worthg .40	16 603 20⅜ 20 20¼ + ⅛
OmniBk .40		20	20⅛	20	20	RyanFs	19	3691	6⅝	6¼	6¼ ⅛	Telxon .011	20 1219	20½	20	20 − ¼	Wyman .80	14 251 16½ 16⅛ 16½ + ¼
Omnicm .98	14	233	20¼	19⅞	20⅛ + ⅜							Teonent .96	17 3062	32¾	32¼	32¼ + ½	Wyse	11 1469 10⅝ 19⅝ 19⅝ + ⅛
OneBc .40	6	38	13⅝	13½	13½ ¼	S S						Teradta	68 636	18½	17¼	17¾ − ½	X Y Z	
OpticC	73	119	14¾	14¼	14⅝	SCI Sys	19	1765	12⅞	12⅝	12⅝	3Com	23 820	19⅝	19⅜	19½ − ⅛	XL Dis	17 836 23½ 23 23
OpticR	12	637	14¾	14¼	14½ − ⅛	SCORU	6	544	9	6¼	8½ ⅛	ThtyRt	13 179	17	16½	16½ − ½	XOMA	240 16¼ 9¾ 10 + ¼
Oracles	34	3774	17	16	16¼ ¾	SEIs .05e	20	00	17¾	17¼	17¼	Toppss .37s	6 168	15⅝	15⅛	15⅛ − ⅛	X-Rite .08	16 250 24¼ 23½ 23½ − ⅞
Orbit	13	579	5⅞	5⅝	5¾	SHL Sys		1615	15¾	15¼	15⅝ − ⅜	Tradind	8 481	14⅜	13¾	14 + ¼	Xicor	16 596 8⅝ 8¼ 6¼ − ⅜
Orfa		283	2 5-16	2¼	2¼	SKFAB1.73e	9	20	40½	40½	40½ + ¾	TWApf	86	30	30	30 + 1	Xidex	2808 5¾ d 5½ 5⅝ − ⅛
OrntFd .15r		25	13½	13	13	Safecrd	8	993	7⅝	7⅜	7½ − ⅛	TrnMus	17 1012	20⅞	20½	20½ − ¼	Xylogic	6 183 19 9½ 9½ − ¼
OshBAs.28a	16	143	24½	24	24¼ − ⅛	Safecos .96	7	3071	23¾	23½	23⅝ + ⅛	TriadSy	15 125	10¾	10⅝	10¾ + ⅛	Xyvan	172 6¼ 5¾ 6⅛ + ⅜
OshkTB .40	6	656	18½	18½	18½ + 2	Sahlen		179	2¼	2 3-16	2 3-16	Trimed	68 675	14½	14	14⅝ + ⅛	YlowFs .62	17 499 26⅛ 25⅝ 26
OttrTP 2.98	10	48	40¾	40	40⅝ − ⅜	StJude	18	636	33	32⅝	33 + ⅜	TrusJos .36	11 236	21¾	21	21¾ + 1	Zondvn	37 536 10⅛ 9¾ 10 + ⅛
OutletC		14	18	17½	18 + ½	StPaulB .30		143	10⅝	10¼	10⅝	Tsrtcp 1.40	7 117	22½	22	22 − ¼		

INDICES

NEW YORK DOW JONES

	May 9	May 6	May 5	May 4	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	1997.35	2007.46	2020.23	2036.31	2110.08 (12/4)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.27	88.29	88.48	88.53	91.25 (3/3)	86.12 (4/1)		
Transport	832.69	843.04	849.01	854.78	904.12 (23/3)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	169.57	169.94	168.86	168.80	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2013.59 (2038.13) Low 1984.08 (1997.84)

STANDARD AND POOR'S	May 9	May 6	May 5	May 4	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	256.54	257.48	258.79	260.32	271.58 (13/4)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	298.58	300.05	301.66	303.53	316.53 (13/4)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	22.08	21.96	22.03	22.13	24.04 (3/3)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	145.28	145.88	146.51	147.31	153.20 (13/4)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	299.99	301.81	302.39	302.54	306.50 (12/4)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	376.27	379.42	379.51	381.62	383.43 (23/4)	331.97 (12/1)	455.26 (26/8/87)	54.87 (31/10/72)

	May 6	Apr. 29	Apr. 22	year ago (approx.)
Dow Industrial Div. Yield	3.54	3.45	3.47	2.85
	May 4	Apr. 27	Apr. 20	year ago (approx.)
S & P Industrial div. yield	3.04	3.07	3.15	2.47
S & P P/E ratio	14.96	15.16	14.70	22.12

TRADING ACTIVITY † Volume

Millions	May 9	May 6	May 5
New York	166.320	129.646	172.045
Amex	7.760	9.565	9.442
OTC	108.935	122.740	121.237

NEW YORK	May 9	May 6	May 5
Issues Traded	1,958	1,971	1,969
Rises	523	580	558
Falls	952	842	904
Unchanged	483	549	507
New Highs	14	18	18
New Lows	23	23	25

CANADA

TORONTO	May 9	May 6	May 5	May 4	1988 High	1988 Low
Metals & Minerals	2725.5	2742.2	2747.3	2776.0	2877.5 (19/4)	2238.7 (8/2)
Composite	3285.9	3307.2	3316.0	3335.5	3402.4 (12/4)	2977.9 (8/2)
MONTREAL Portfolio	1622.02	1632.87	1636.28	1640.93	1681.54 (12/4)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Houston Inds	8,508,100	30⅝	—	Staley Cont	1,229,000	38⅝	+ ½
SW Public Service	4,660,000	25¼	—	General Electric	1,184,400	39⅞	+ ⅜
Marion Labs	2,167,500	31⅛	⅝	Gillette	1,093,800	37½	1⅛
Baxter Labs	1,627,700	20	½	AT&T	1,081,800	26⅝	⅜
Texaco	1,561,200	50½	1⅝	May Dept Strs	1,037,300	31	½

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

	May 10	May 9	May 6	May 5	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1399.4	1410.8	1423.0	1424.3	1467.6 (14/4)	1170.7 (10/2)
All Mining (1/1/80)	655.9	661.4	670.8	673.1	773.6 (14/1)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	176.10	176.01	176.02	175.85	178.92 (21/3)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	4717.10	4736.10	4746.41	4766.4	5043.1 (9/3)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	196.26	195.94	196.81	197.17	200.07 (11/4)	180.68 (4/1)
FINLAND						
Unitas General (1975)	662.3	660.3	656.9	653.8	662.3 (10/5)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	313.1	313.5	311.0	314.3	314.3 (5/5)	251.3 (29/1)
Ind. Tendance (31/12/87)	113.5	114.1	113.1	113.0	114.2 (28/4)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	430.67	436.68	440.66	443.87	476.37 (18/3)	396.40 (29/1)
Commerzbank (1/12/53)	1310.4	1326.5	1343.2	1353.2	1457.5 (18/3)	1207.9 (29/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2563.02	2584.03	2571.74	2577.92	2684.13 (14/4)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	495.92	499.32	504.73	503.81	545.07 (18/3)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	27402.25	27264.30	27534.39	(c)	27669.72 (2/5)	21217.04 (4/1)
Tokyo SE New (4/1/68)	2185.77	2180.47	2201.93	(c)	2213.08 (2/5)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	241.3	243.6	245.2	245.4	280.3 (24/2)	205.7 (4/1)
ANP-CBS Industrial (1970)	197.9	200.1	201.7	201.7	211.7 (14/4)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	383.85	391.47	388.47	390.03	402.04 (11/4)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	966.77	971.90	976.06	975.78	976.06 (6/5)	833.60 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1174.04	1157.0	(c)	1184.0	1790.0 (7/1)	1154.0 (4/5)
JSE Industrial (28/9/78)	1486.04	1479.0	(c)	1489.0	1564.0 (11/1)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	270.73	272.48	272.32	272.32	281.14 (14/4)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	(u)	2817.2	2808.8	2800.2	2858.1 (3/5)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	503.7	505.4	508.5	503.8	539.5 (18/3)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	452.6	455.5	458.4	463.4 (13/4)	401.0 (21/1)

**Saturday May 7: Japan Nikkei 27487.77 TSE 2197.20

§ Subject to official recalculation

Base values of all indices are 100 except Brussels SE – 1,000; JSE Gold – 255.7; JSE Industrials – 264.3; and Australia All Ordinary and Mining – 500. (c) Closed. (u) Unavailable.

CHIEF LONDON PRICE CHANGES YESTERDAY
(Prices in pence unless otherwise indicated)

RISES			FALLS		
Carless Capel	123	+ 6	Brent Walker	383	− 10
Cons. Gold Fields	998	+ 33	Centreway Trust	150	− 28
Goal Pet.	127½	+ 14½	Courtaulds	367	− 9
Laird	242	+ 7	English China Clays	440	− 9
Manganese Bronze	252	+ 13	Harris Queensway	152	− 6
Royal Ins.	434	+ 10	McCarthy & Stone	473	− 20
Stanhope Props.	285	+ 9	Sears	122	− 6
Stead & Simpson	£14 1/16	+ 1½			

TOKYO – Most Active Stocks
Tuesday, 10 May, 1988

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Keisei Electric Railway	33.97m	964	+43	Fujikura Ltd	17.43m	899	+16
Japan Steel Works	32.73m	470	+15	Cosmo Oil	16.36m	679	+37
Kobe Steel	31.75m	357	+5	Ushiku	16.00m	473	+20
Mitsui Mining	23.75m	556	+3	Mitsubishi Steel	15.57m	1,240	+50
Toshiba	21.29m	870	+17	Hitachi Seiki	11.65m	1,030	+65

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock		Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14	AAR	s	.36	1.6	10	427	23⅛	22⅝	23	+½
27	10½	AGS	s			14	616	18⅝	18¼	18½	+⅛
7⅛	3⅛	AMCA					127	3¼	5½	5⅛	−⅛
⅝	⅝	AMCA rt					3	⅜	⅝	⅜	
6⅝	3¾	AM	Intl				1137	4	3¾	3⅞	
65½	26⅝	AMR				11	3743	44	43⅞	43½	+⅛
27¼	24⅞	ANR	pf	2.67	10.		x2	25½	25½	25½	−½
24¼	19	ANR	pf	2.12	8.8		x2	23	23	23	−⅛
11⅛	6⅝	ARX				11	54	8½	8⅝	8½	+⅛
72⅞	40⅛	ASA		3	6.9		390	43⅝	42⅝	43⅝	+⅜
22⅝	9½	AVX				12	84	17⅛	16⅞	17	−¼
66⅝	40	AbtLab		1.20	2.7	15	3390	45⅞	43¾	44	−⅝
28	15⅝	Abitibi	g	1			89	17¼	16⅝	16⅞	−¼
16¾	6½	AcmeC		.40	3.3		6	12	11⅝	15	
20	14⅛	AdaEx		3.05e	20.		x160	15¼	16⅜	15⅜	+⅛
19¼	6⅞	AdamMl		.24	1.5	13	5	15⅞	15¾	15⅞	−⅛
24⅞	7½	AMD					3707	14	13½	15⅞	+¼
56¾	29¼	AMD	pf	3.	7.7		128	38¾	38½	38¾	−¼
11⅛	4⅝	Adobe				12	128	7⅜	7⅜	7½	+¼
28¼	16¼	Adob	pf	1.84	10.		8	18	18	18	+¼
21⅜	17½	Adob	pf	2.40	12.		3	20¾	20¾	20¾	
13⅞	6⅛	Advest		.12a	1.8	7	42	6¾	6⅝	6⅝	−⅛

Continued on Page 47

NYSE COMPOSITE CLOSING PRICES

Continued from Page 46

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
84¾	76	PaPL pf8.60	10.			z10	86¼	86¼	86¼	-¾
104⅝	99¾	PaPL pf9.24	9.1			z1860	102	101¼	102	+⅞
69¾	54¾	Pennzl 2.40	3.9	15	1099	62¾	61¼	62¼	+1
39½	29½	Penw pr1.60	4.4		10	36½	35¾	36¼	+1
89	38½	Pennzol2.20	3.0	98	1420	73⅛	72⅜	72⅝	-⅜
22⅞	14¼	PeoplEn.52	3.4	9	384	18	17⅞	18	+⅛
18⅞	8⅝	PepBoys .10	.9	18	629	11	10⅞	10⅞	-¼
42¼	25½	PepsiCo.84	2.5	14	4024	33⅞	33⅜	33⅝	
12	7⅞	PerkF 1.20e	11.	13	284	11⅛	10⅞	11	-⅛
40	18½	PerkEl .60	2.5		782	24¼	23¾	24	-⅛
8⅞	5⅞	PmIan.39e	9.8	13	65	6⅛	6	6	-⅛
10¾	6¾	PeLP pr1.10	15.		244	7⅞	7¾	7⅞	
19⅜	8¾	PeryDr			145	9¾	9½	9½	
49	14¾	Petrie .20	1.1	18	536	18⅛	18	18⅛	-⅛
21	15⅞	PetPer 2.08	11.	8	129	19⅞	19⅝	19⅝	-½
33½	20½	PetRs 3.16e	12.		x91	25¾	25⅜	25⅜	-¼
18	15	PetRs pf1.57	9.3		34	16⅞	16⅞	16⅞	
2⅛	¾	Pirinv .23e	17.		8	1⅜	1⅜	1⅜	
76½	40	Pfizer 2	3.8	12	3800	52⅞	51⅞	52½	+⅜
56	23½	PhelpD .60	2.1	5	4322	37⅞	36⅝	37¼	+¾
74	37	PhlpD pr 3	5.7		333	53¼	53	53	
23⅝	16¾	PhilaEl2.20	12.	8	2044	17⅞	17⅝	17¾	+⅛
45½	34	PhE pfA3.80	11.		z180	35½	35½	35½	-1
99	83¾	PhE pf9.50	11.		z200	85	85	85	+1¼
13¾	11	PhE pfR1.41	12.		29	12⅛	11⅞	12	+⅛
124	112	PhE pfQ14.63	13.		6	115½	115½	115½	
12⅞	9⅞	PhE pfP1.33	12.		37	11¼	11⅛	11¼	+⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35¾	19⅞	XTRA .64	2.1	15	292	30¾	29⅝	29⅞	-1
29¾	19½	XTRA pf1.94	7.2		1	27⅛	27⅛	27⅛	-¼
47⅞	17½	Yorkin		14	1108	45¾	44	44½	-1½
7⅛	2¼	Zapata			186	3¼	3⅛	3⅛	
37	15½	Zayre .40	1.7	11	5150	24	22⅞	23⅛	-⅝
18⅝	8⅝	Zemex .40	3.0	17	5	13⅝	13½	13½	-¾
33⅝	10	ZenithE			1738	22⅝	21¾	22	+¼
19¾	18	Zenin n			277	19⅛	19	19	
11½	1	vjZenLb			458	1⅜	1¼	1⅜	+⅛
24	13½	ZenNtl .80	3.5	11	325	23	22⅝	23	+¾
20⅝	11¾	Zero .40	2.8	15	87	14⅝	14¼	14¼	-⅛
30¾	18	Zurnin s .80	3.3	14	168	20⅝	20½	20⅝	+¾
10⅝	7⅝	Zweig 1.34e	13.		363	10¼	10⅛	10⅛	-⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls - sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 45

AMERICA

Suspension of stock index arbitrage boosts equities

Wall Street

THE ANNOUNCEMENT that a number of US securities houses have decided to suspend programmed stock index arbitrage trading on their own accounts gave the equity market a psychological boost, *writes Janet Bush in New York.*

The Dow Jonas Industrial Average closed 6.3 points higher at 2,003.65. The index had risen more than 12 points in the first half hour of trading, as announcemants on stock index arbitrage by Morgan Stanley, Salomon Brothers and PaineWebber were made on news wires. Bear Stearns later said it had already stopped arbitrage on its own account and for customers on May 5.

The three securities firms said they were suspending stock index arbitrage trading on their own account for the time being in response to the emotional climate surrounding this form of programme trading. They said their decisions were based on a desire to encourage co-ordinated efforts by Wall Street, the various financial market regulators and the exchanges to find long-term solutions to the volatility which continues to discourage retail investment in the equity market.

Salomon Brothers and Morgan Stanley are widely regarded as the two heaviest users of stock index arbitrage – the trading strategy which is used to hedge the buying and selling of portfolios based on the major stock market indices and takes advantage of discrepancies in price between stock index futures contracts and their underlying stocks on the cash market.

Since October 19, reports suggest that the voluma of stock index arbitrage trades has been halved. Securities houses have faced much higher costs since the New York Stock Exchange imposed curbs on using its computer systems to execute stock index arbitrage when the Dow index rises or falls by 50 points.

Apart from this special factor, equities continued to focus almost exclusively on movements in the US Treasury bond market and on early indications of demand at yesterday's auction of three-year notes, the first stage of the Treasury's quarterly refunding this week.

During morning trading, both bond and equity markets were looking with more than usual interest at the US Federal Reserve's money market operations for any confirmation of how much the Fed has tightened monetary policy.

The rise in Fed Funds to above 7 per cent on Monday fuelled speculation that the Fed had already tightened policy, leaving the question of exactly how much.

The Fed announced it was adding liquidity to the system through two-day system repurchase agreements. Fed Funds were trading at 7⅛ per cent when the announcement was made and eased back only slightly to 7¼ per cent in late trading.

The Fed's action was seen as the most neutral way of operating, as it gave no clear signal about the central bank's views of where it wants interest rates to be. If the Fed had announced an overnight system repurchase, the most aggressive way to add liquidity to the system, the market may have taken this as a sign the bank thought the Fed Funds rate was too high.

On the other hand, a customer repurchase, which is the least aggressive, would have be taken as a signal that the Fed was actively encouraging a higher *Fed Funds rate.*

Given a great deal of nervousness surrounding this week'a auctions, it seemed to have been in the best interests of the market and the authorities to take a middle course.

US Treasury bond prices closed up to ¼ point lower. The Treasury's long bond was quoted ⅛ of a point lower in late trading to yield 9.18 per cent. Indications suggested that demand at the three-year note auction had been reasonable.

On the equity market, First Boston jumped $2¾ to $31, after news that the company had started talks with Crédit Suisse and Financière Crédit Suisse First Boston about the creation of a global investment banking firm and the possible restructuring of the ownership of First Boston and Financière which own 40 per cent of each other.

Lorimar-Telepictures dropped $½ to $12⅞ on the American Stock Exchange, after news that Warner Communications had agreed to acquire it in a stock swap designed to provide holders with stock valued at $15 a share. Warner dropped $¾ to $32⅞.

Canada

RISING GOLDS and base metals led the advance as Toronto stocks showed a slight gain in mixed trading.

The composite index rose 6.6 to 3,292.5, as declines ontpaced advances by 443 to 395 on moderate turnover of 25.3m shares.

Wong Sulong considers why Kuala Lumpur is finally picking up

Foreign interest returns to Malaysia

FOREIGN investors are showing renewed interest in selected Malaysian blue chips, which are leading the way in the Malaysian stock market's gradual recovery.

The Kuala Lumpur stock exchange has shown the slowest rate of recovery among the Asian markets since last October's world market crash. Some analysts feel it therefore offers more scope for capital gains.

The pace of the upward climb on the Malaysian exchange has recently quickened. The KLSE composite index of 83 stocks rose 9.5 per cent to 286 during the first quarter of this year, and since then has risen another 8 per cent to yesterday's close of 308, making it one of the world's best performers in April.

The forecasts are becoming more bullish, mainly because of the sharp improvement in the economy, helped by some fairly impressive balance of payments figures. Surging exports and high commodity prices late last year aided the economic pick-up, which has been converted into a broad-based recovery.

Gross domestic product rose by 4.7 per cent last year compared with 1 per cent in 1986, according to the Malaysian Central Bank, which is forecasting growth of 5 per cent this year. The Malaysian Institute for Economic Research believes the figure could be even higher, and recently predicted a 5.9 per cent rise.

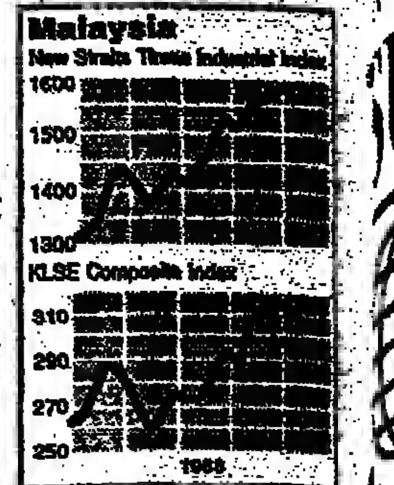
There is also good news for the market on the political front. Through a series of tough measures, Dr Mahathir, the Prime Minister, has achieved firm control of the country, the government and his party. He is set to stay on, although the power struggle is by no means over.

Blue chips attracting steady foreign interest include conglomerate Sime Darby, steel manufacturer ASM, Malaysian Airlines, Malaysian International Shipping Corporation (MISC), plantation company Kuala Lumpur Kepong, diversified sugar-based Perlis Plantations, Malaysian Mining Corporation and foreign-controlled Guinness Malaysia and Rothmans Malaysia. Their shares have risen between 20 per cent and 30 per cent in the past two months, helped by significantly improved earnings last year and expectations of even better performances this year.

Foreigners have steadily built up their stakes in MISC to about 25 per cent of the company. Already the most profitable company on the KLSE, the shipping concern can increase earnings substantially by speeding up the turn-around time of its five liquid natural gas tankers travelling to and from Japan.

Analysts say, however, that the influx of foreign funds, largely from Singapore and the UK, is still well below the pre-crash level of last year. But even a moderate injection of foreign money boosts the KLSE, which is a relatively small market with a capitalisation of $19.6bn compared with Hong Kong's $65bn.

The relisting of United Engineers Malaysia later this month is expected to give another boost to the market. UEM was suspended five years ago because of heavy losses.



SOUTH AFRICA

THE BULLION price held on to overnight gains, helping Johannesburg gold stocks to rise in a quiet day's trading.

Interest was subdued and gains were only slight.

Heavyweight gold issues saw Vaal Reefs gain R3 to R238 and Randfontein move up R7 to R207. Among other gold stocks, Beatrix rose 40 cents to R12, Driefontein increased 60 cents to R30.85, Freegold put on 25 cents to R26.75 and Elandsrand closed 25 cents higher at R13.50, while Buffelsfontein remained unchanged at R51.

Most other mining and financial issues followed the firmer trend, with diamond stock De Beers up 15 cents at R33.15 and Rustenburg Platinum 25 cents higher at R31.

Among mining houses, Anglo American was unchanged at R47.50, Rand Mines gained R1 to R51 and Gold Fields improved 50 cents to R51.25.

Industrials drifted narrowly in both directions. Barlow Rand rose 10 cents to R19.

ASIA

Nikkei rebounds on small-lot buying

Tokyo

AFTER a weak start, small-lot buying sparked a rebound in Tokyo share prices yesterday for the first time in four trading days, despite Wall Street's continued decline, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average ended 147.95 higher at 27,412.25, just below its day's high of 27,412.83 and well above the low of 27,166.92.

Volume rose to 746m shares compared with 620m on Monday and advances outpaced declines by 494 to 401, with 176 issues unchanged.

The market was initially undermined by the fourth consecutive fall in New York, when the Dow Jones Industrial Average slipped below 2,000 for the first time since April 21.

Investors were also concerned ahont the outcome of the US Treasury note and bond auctions starting yesterday.

In mid-morning, however, small-lot buying began to increase on prospects that Japanese institutions would respond more strongly than expected to the planned auctions and this drove the market higher.

Nevertheless, institutional investors were reluctant to enter the stock market aggressively, so buying interest centred on lower-priced issues related to redevelopment projects.

Keisei Electric Railway topped the active list with 33.97m shares changing hands and rose a sharp Y43 to Y964. Its popularity reflected the good business performance of its subsidiary, Oriental Land, which operates Tokyo Disneyland.

Japan Steel Works, the second busiest issue with 32.73m shares traded, gained Y15 to Y470 on investors' continued interest in the company's plan to redevelop its plant site in Tokyo.

Mitsubishi Steel, Hitachi Seiki and Cosmo Oil, which have similar redevelopment projects, moved up Y50 to Y1,240, Y65 to Y1,030 and Y37 to Y679 respectively.

Some superconductor-related issues found demand. Fujikura, with 17.43m shares traded, rose Y16 to Y899. Its plan to make effective use of its idle property increased buying interest.

Jujiya rose Y170 to Y1,200 and Noritake gained Y110 to Y1,110 on rumours they were being sought by speculators.

Ebara rose Y50 to Y1,080 and Prima Meat Packers Y54 to Y760: both reported good business results.

Among high-technology issues and large-capital stocks, Toshiba added Y17 to Y870, Fujitsu Y40 to Y1,600, Kobe Steel Y5 to Y357, Nippon Steel Y3 to Y464 and Ishikawajima-Harima Heavy Industries Y5 to Y845. But buying interest in these issues was not strong.

After a firm start, bond prices declined towards the close on dealers' selling.

The US Treasury note and bond auctions were weighing heavily on institutional investors and dealers.

The yield on the benchmark 5.0 per cent government bond, maturing in December 1997, fell to 4.580 per cent from 4.570 per cent at Monday's close and then rose to finish the day at 4.595 per cent.

Osaka Securities Exchange prices closed lower for the fourth consecutive trading day. The 250-issue OSE stock average lost 121.1 to 27,286.75 on an estimated volume of 84m shares, up 2.9m from Monday.

Murata Manufacturing dropped Y60 to Y3,010 and Hankyu Department Stores Y40 to Y1,180. But Matsumura-Gumi soared Y80 to Y850.

Hong Kong

LATE bargain-hunting reduced the day's earlier losses, but equities closed lower, with the Hang Seng index off 21.01 at 2,563.02. It had fallen 40 points.

Turnover fell to HK$638m from HK$1bn on Monday, as sentiment was hit by the overnight fall below 2,000 in the Dow Jones Industrial index.

Blue chips were held up by bargain-hunting and Cheung Kong and Henderson holding closed unchanged at HK$7.45 and HK$5.60 respectively.

Hongkong Bank, which received its shareholders' approval for a capital increase, lost 5 cents to HK$6.40.

Jardine Strategic, which put its net asset value at HK$15.05 on April 30, fell 25 cents to HK$8.80.

Australia

VOLUMES and trading were hit by a lack of interest among investors, with the All Ordinaries falling to a six-week low of 1,368.4, off 11.4.

Media and transport stocks suffered the larger falls among industrials, with News Corp off 40 cents at A$12.70 and Bond Media down 1 cent at 80 cents. TNT, which on Monday reported nine-month profits up by more than a third, shed 10 cents to A$4.30.

Singapore

INVESTOR malaise and some profit-taking took share prices marginally lower across the board, with blue chips and quality stocks seeing the most selling.

The Straits Times Industrial index lost 5.12 to 966.77 after Wall Street's overnight fall. Turnover reached 21.5m shares against the previous 21m.

Singapore Land was the hardest hit stock, falling 30 cents to S$6.30. Sime Darby shed 6 cents to S$2.74 on turnover of about 1.2m shares.

EUROPE

Investors find reasons for restraint

PROFIT-TAKING and generally unenthusiastic trading took most European bourses lower yesterday, with each market finding its own reasons for restraint, *writes Our Markets Staff.*

FRANKFURT was again preoccupied by interest rate fears and ended lower in spite of positive corporate news.

The FAZ index eased 5.01 to 430.67 in continuing low volumes, as the weakness in bond prices also hit sentiment.

Good news in the form of improved results from pharmaceuticals company Schering and chemicals groups BASF and Henkel was shrugged off by investors. Schering posted a 24 per cent rise in first quarter profits and fell DM2.70 to DM461.80. BASF, which forecast good interim results and said first quarter pre-tax earnings were up 7.5 per cent, lost DM3 to DM236. Henkel reported a 29 per cent rise in annual profits and increased its dividend, closing up DM4 at DM496.50 but off the day's opening high of DM497.50.

Retailers lost ground amid news that West German retail sales rose 6.5 per cent in the first quarter over the same period a year ago. Karstadt eased DM5 to DM445 and Kaufhof lost DM4 to DM380.

Bonds ended mixed, with the 6¾ per cent 1998 federal bond unchanged after its DM1 fall on Monday, yielding 6.64 per cent.

PARIS saw a slight correction after Monday's celebration of the election results and share prices eased marginally.

The CAC General index, based on opening prices, slipped 0.4 to 313.1, while the Indicateur de Tendance ended unchanged at 114.1. The resignation of Prime Minister Jacques Chirac was expected and had little impact on the market.

Suez rose FFr2.80 to FFr229.80 after Monday's news of its capital increase, and Chargeurs gained a further FFr14 to FFr981.

Cie du Midi continued its downward move, losing FFr64 to FFr1,551. Oil issues also fell on weak petroleum prices, with Raffinage off FFr4.90, or 6.6 per cent, at FFr68.90 and Esso France FFr12 lower at FFr282.50.

MILAN moved lower in thin volume on general investor malaise caused by continued concern over the country's budget deficit.

Sentiment was also hit by nervousness over the direction of markets around Europe and over upcoming demands on the market's liquidity through capital increases by Ferruzzi-Montedison and Generali. The MIB index fell 7 to 1,025.

Generali's cash call nevertheless received a strong welcome, being at the lower end of expectations and designed to attract the small investor, and the stock gained L1,200 to L85,700, rising after hours to L85,900.

Stet also bucked the trend, adding L25 to L3,005 after reporting sharply higher annual profits.

Montedison lost L74, or 4.6 per cent, to L1,546 and Ferruzzi Agricola fell L40 to L1,401.

AMSTERDAM declined as profit-taking in selected stocks exacerbated a lack of enthusiasm among domestic and foreign buyers. The ANP-CBS general index fell 2.3 to 241.3.

The previous day's drop on Wall Street hit sentiment and many investors stayed away in anticipation of next week's US trade balance data.

Activity focused on Royal Dutch Petroleum, unchanged at Fl 229.30, which announces first quarter results today.

Azko slipped 80 cents to Fl 106.70. The chemicals company has settled its 11-year dispute with DuPont of the US over the manufacture of aramid fibre products.

Packaging company Bührmann-Tetterode rose Fl 1.10 to Fl 45.50 after forecasting a sharp increase in 1988 profits following a rise in first quarter results.

Nijverdal-Ten Cate, which said it had bought an 80 per cent stake in US company Ensho and expected unchanged profits this year, slipped Fl 1.60 to Fl 93.90.

Trading in Frans Maas, the transport company, was briefly suspended before its announcement of a one-for-seven rights issue. The stock closed Fl 1.50 lower at Fl 35.50.

ZURICH closed lower to mixed after another quiet day, as foreign and institutional investors remained absent. A medium-sized order for confectiooer Jacobs Suchard stock was the only event to shake the market momentarily out of its sluggishness.

Suchard, which has recently taken its stake in UK chocolate maker Rowntree to just under 30 per cent, closed SFr275 higher at SFr7,225. Bearers of rival confectionery company Nestlé, which yesterday raised its stake in Rowntree to just over 11 per cent, slipped SFr95 to SFr8,080.

The Crédit Suisse index lost 1.8 to 435.4.

BRUSSELS had a dull, thin day as shares closed mixed to weaker after Wall Street's overnight fall and in the absence of fresh factors to influence the market.

Foreign buyers, however, pushed Belgium's largest industrial stock, oil group Petrofina, BFr75 higher to BFr11,250 on moderate volume of 9,100 shares. The group, which announces annual results next week and will be quoted ex-dividend after the shareholders' meeting, has been the subject of takeover rumours following a steady rise in its share price in recent weeks.

STOCKHOLM saw quiet trading as investors stayed on the sidelines in the run-up to today's early bourse close and tomorrow'a national holiday. Prices generally moved higher.

MADRID saw falls in almost every sector in a dull session, with gains only in banks. The general index slipped 1.75 to 270.73.

London

EARLY gains in Wall Street helped London shares recover some of the losses caused by sterling's strength and the previous day's fall in the US.

Interest focused on takeover stocks, with Cadbury Schweppes rising sharply following the Government's decision not to refer US group General Cinema'a stake to the Monopolies and Mergers Commission.

Rowntree was active, indicating that Swiss company Nestlé was busy increasing its 11 per cent stake. The FT-SE closed 2.3 lower at 1,792.6.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., *in conjunction with the Institute of Actuaries and the Faculty of Actuaries*

NATIONAL AND REGIONAL MARKETS	TUESDAY MAY 10 1988					MONDAY MAY 9 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (88)	120.20	+0.2	94.69	103.06	4.25	119.93	94.60	103.62	122.50	91.16	139.09
Austria (16)	90.94	+0.1	71.64	79.24	2.64	90.81	71.63	79.24	98.18	84.35	90.50
Belgium (65)	126.39	-0.4	99.57	110.19	4.54	126.87	100.08	110.76	139.89	99.14	120.48
Canada (125)	120.62	+0.3	95.02	108.17	3.12	120.28	94.88	107.95	125.49	107.06	130.99
Denmark (39)	118.43	+0.4	93.29	104.09	2.77	117.99	93.08	103.95	123.36	111.42	117.78
Finland (25)	128.33	+0.4	101.10	107.74	1.95	127.82	100.83	107.49	128.72	106.78	—
France (121)	89.82	-0.2	70.75	80.16	4.00	89.99	70.99	80.54	90.19	72.77	120.71
West Germany (99)	73.73	-1.0	58.08	64.32	2.86	74.45	58.73	65.10	80.79	67.78	93.73
Hong Kong (46)	102.20	-0.8	80.51	102.47	4.45	103.05	81.29	103.33	105.83	84.90	112.75
Ireland (18)	123.68	+0.4	97.43	109.53	4.22	123.17	97.16	109.29	123.91	104.60	129.07
Italy (102)	74.61	-0.5	58.77	69.48	2.72	75.00	59.16	69.99	81.74	62.99	105.55
Japan (456)	174.28	+0.6	137.30	137.05	0.52	173.33	136.72	136.73	177.27	133.61	160.56
Malaysia (36)	129.65	-1.2	102.14	129.13	2.80	131.28	103.55	130.69	133.24	107.83	155.26
Mexico (14)	127.77	+1.6	100.66	319.21	1.57	125.81	99.24	314.58	176.90	90.07	167.54
Netherland (38)	106.32	-0.3	83.76	91.33	5.08	106.63	84.11	91.79	110.66	95.23	117.76
New Zealand (22)	77.10	-1.1	60.74	59.29	5.54	77.96	61.50	60.27	79.15	64.42	95.42
Norway (25)	120.47	-2.2	94.90	100.52	3.01	123.24	97.21	103.12	132.23	98.55	133.13
Singapore (26)	111.57	-0.7	87.89	103.14	2.42	112.33	88.61	103.84	114.93	97.99	129.63
South Africa (60)	123.81	+1.1	97.53	79.02	5.32	122.47	96.61	78.51	139.07	118.16	171.30
Spain (42)	150.35	+0.1	118.44	126.83	3.41	150.18	118.47	127.14	155.36	130.73	107.81
Sweden (38)	122.06	+0.1	96.16	106.11	2.66	121.92	96.17	106.13	124.75	96.92	119.65
Switzerland (56)	77.20	+0.2	60.82	66.72	2.56	77.03	60.76	66.88	86.75	76.22	100.36
United Kingdom (329)	140.16	-0.1	110.41	110.41	4.34	140.25	110.63	110.63	141.18	123.09	144.44
USA (581)	104.82	+0.4	82.57	104.82	3.71	104.44	82.38	104.44	110.51	99.19	120.05
Europe (1013)	108.41	-0.2	85.40	90.59	3.87	108.65	85.71	90.97	110.71	97.01	120.93
Pacific Basin (674)	169.32	+0.5	133.38	134.27	0.70	168.46	132.88	134.03	172.26	130.81	157.90
Euro-Pacific (1687)	144.96	+0.3	114.19	116.93	1.66	144.55	114.02	116.93	147.53	120.36	143.15
North America (706)	105.66	+0.4	83.24	105.04	3.67	105.28	83.05	104.66	111.28	99.78	120.63
Europe Ex. UK (684)	88.77	-0.4	69.94	78.10	3.43	89.11	70.30	78.60	92.81	80.27	106.34
Pacific Ex. Japan (218)	109.45	-0.3	86.23	98.58	4.27	109.77	86.59	99.31	111.90	87.51	125.58
World Ex. US (1886)	143.90	+0.3	113.36	116.34	1.74	143.48	113.18	116.33	146.49	120.26	143.04
World Ex. UK (2138)	127.73	+0.4	100.62	112.59	2.13	127.27	100.40	112.41	130.28	111.77	133.04
World Ex. So. Af. (2407)	128.85	+0.3	101.51	112.61	2.33	128.45	101.33	112.48	130.96	113.26	133.81
World Ex. Japan (2011)	107.00	+0.1	84.29	99.56	3.78	106.86	84.29	99.53	110.99	100.00	121.45
The World Index (2467)	128.82	+0.3	101.48	112.38	2.35	128.42	101.30	112.24	130.92	113.37	134.05

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

Amendments to indices for May 9 applied to the following: Netherland, the Regional Indices and the World Index.

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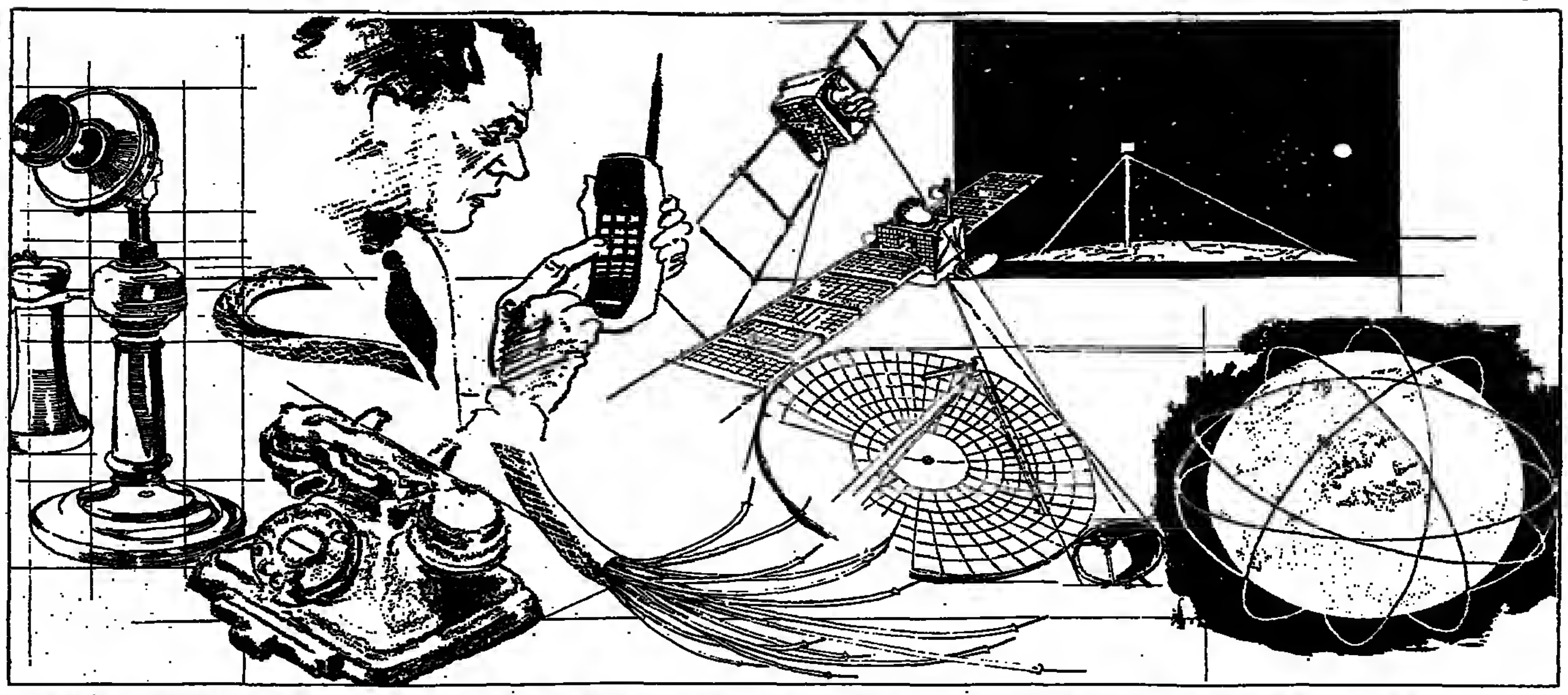
SECTION III

FINANCIAL TIMES SURVEY

While the world telecommunications industry is changing at frenetic speed, the European sector is struggling to meet strong competitive challenges from US and Japanese suppliers. Terry Dodsworth, Industrial Editor, looks at Europe's latest responses to these market pressures.



Telephone services are now expanding at a bewildering pace away from their roots in simple voice telephony, moving into a range of data and information services delivered by a variety of means, from old fashioned telephone lines to satellites in the sky. *(Illustration: Ann Chasseaud).*

European Telecommunications

The pressure intensifies

THE WORLD telecommunications show in Geneva last October was an enormous extravaganza, glittering with conspicuous expenditure on lavish stands that cost some of the exhibitioners several millions of dollars. But most companies argued that the display was well worth the money. It demonstrated an industry on the move, a business which is full of new ideas, brimming with self-confidence, and expanding with a verve not seen in decades.

For the European industry, however, there were a number of sobering elements in the show.

It indicated, for a start, the strength of the competitive challenge the telephone operating companies face from the American computer manufacturers, now moving increasingly into the business of manipulating data over the telephone lines; it equally underscored the aggressive marketing drive by foreign equipment manufacturers from America and Japan; and, most of all, it displayed the frenetic speed at which the telecommunications industry is changing today, propelled forward by the shift into an age in which information has become as valuable a commodity as oil or iron ore.

The European industry has creaked into gear to cope with these challenges, but there is no certainty yet that it is well enough oiled to to stand long-term comparison with its main competitors from the US and Japan.

The nature of this competitive threat falls into two broad categories. On the one hand there is the business of equipment manufacturing, a market that is worth ECU 17.5bn in Europe alone, and where there have been signs that the European industry is losing pace overseas; and, on the other, there is the burgeoning and complex activity of telephone services. These are now expanding at a bewildering pace away from their roots in simple voice telephony, moving into a range of data and information services delivered by a variety of means, from old fashioned telephone lines to satellites in the sky.

In the last year or so, Europe's response to these market development has gathered pace enormously. Among the new initiatives are:

■ The merger of the telecommunications manufacturing interests of the General Electric Company and Plessey in Britain to create GPT deal, a joint venture with sales of £1.2bn a year.

■ Other moves towards manufacturing integration, such as the earlier, and much larger amalgamation of the telephone businesses of ITT and Alcatel, and the Ericsson takeover of CGCT in France.

■ The creation of three international consortia organisations to bid for contracts to set up pan-European digital cellular car phone networks in the early 1990s. This followed a pace-setting agreement by European Governments to adopt a commmon standard for the next generation of car phones so that equipment can be used universally throughout the region.

■ An agreement between STC of the UK and Northern Telecom of Canada under which the two companies will collaborate in certain areas of research and marketing.

■ A breakthrough by the UK's Cable and Wireless in Japan, where it will have a significant stake in one of the new international telephone service operators.

■ The establishment of the first cross-frontier European electronic data interchange services, whereby suppliers and their customers throughout the region can be brought together to submit orders and invoices.

■ Indications that Telefonica of Spain is beginning to make progress in sales to Soviet Russia.

■ The acceleration of moves to develop the digital cordless telephone industry. So far largely based in Britain, there are signs that this technology may be adopted in France, particularly the idea of a system of establishing special public locations where users may place calls with their portable handsets into the public system.

■ The publication of the report of the West Germany Commission on telecommunications reform led by Prof Eberhard Witte. This advocated significant liberalisation of the Bundespost's services, although stopping short at suggestions that the country should adopt a second basic telephone service operator.

■ An initiative to streamline standards-setting in Europe through a new European Telecommunications Standards Institute. The aim is to work towards less cumbersome procedures that help integration in the region by a move to common standards.

Looming over all these developments today stands the European Commission. Last year, the Commission published its Green Paper on telecommunications, a policy document on which it is basing a determined attempt to seize the initiative in the search for a coherent approach to telecommunications in the region. If it succeeds, this programme will establish rules to make a genuinely open market in equipment within the EC; and it will also lay down clear guidelines for the public telephone operators to prevent them from stifling the growth of new services.

Underlying the Commission's move is the belief that modern economies need efficient and flexible telecommunications if they are to realise their potential. The old structures of the industry, it is argued, are too rigid for the present climate: manufacturers need larger markets over which to amortise their products, and the service operators must become more responsive to users – particularly the big business customers demanding far more than straightforward voice communications.

Following extensive comment on the Green Paper, the Commission is now moving into gear to try and accelerate the pace of change. Its first step was a controversial recent attempt to abolish the national monopoly systems under which telephone subscribers are frequently forced to buy terminal equipment – handsets, office exchanges, modems and so on – from the national telecommunications system operator.

Critics have objected to this more on account of the procedure adopted by the Commission – a straightforward directive – rather than the content of the decision, since there is widespread agreement on the terminal equipment issue.

There is also broad acceptance within the Community of the Green Paper's proposal to split the regulatory and operational functions of the telephone network companies. The idea here is to put the telephone service groups on the same footing as start-up companies moving into the data and information business: the traditional operating companies will not be able to regulate competition away.

It will be much more difficult, however, for the Commission to push through its most radical proposal – a new system for standardising the telephone network across Europe in a way that provides fair and equal access to basic transmission facilities for anyone. The principle underlying this proposal is that the service operators should offer standardised facilities for technical interfaces (the method of connecting to the network), conditions of use, and tariff structures.

These reforms would have far-reaching implications. Under the Open Network Provision (ONP), as it is called, signalling standards would be common, so that a service set up in one country would work automatically in another. There would also be similar agreements, country by country, on issues such as the resale of spare capacity on a leased telephone line, or delivery periods for new equipment. There are plenty of sceptics who believe that the Commission is being hopelessly optimistic in its belief that these reforms can be achieved by 1992. The traditional service operators, it is argued, have invested too much in their individual approaches to want to make expeditious changes.

Underlying this argument is the belief that the familiar old telecommunications service companies do not have the zip or entrepreneurial flair to respond to the demands of the new information era. But if they do not react, they face an uncertain future. They now have to pick up the gauntlet or suffer a slow decline in their powers.

ON OTHER PAGES

The European Green Paper

Tough road to 1992

FOR THE champions of Europe's information economy, the failure to create a homogeneous market place in electronics and telecommunications has long been a cause for concern.

Purely national approaches, it has been argued, have denied these industries the proper economies of scale and scope needed to compete with their US and Japanese rivals and threatened the climate in which many new services might grow.

Yet despite the logic of these arguments, Europa today remains a patchwork of divergent tariff, certification and procurement policies. And if the ideal of a common internal market for trade in equipment and services has found few dissenters, the reality of breaking down the cultural, political, economic, social and technical barriers to co-operation has, to date, proved overwhelming

It is against this background that the European Commission has set its ambitious target of creating a common internal market for trade in telecommunications equipment and services by 1992. The Commission's blueprint for opening up Europe's markets was contained in its long-awaited Green Paper on telecommunications published last June.

This discussion document was intended to reflect the radical technological advances that have taken place in recent years and to anticipate further service developments. As such, it went far beyond previous proposals in calling for a major restructuring of the European market place and common approaches between governments in key policy areas.

Building on the existing lines of action begun by the Commission in 1984, the Green Paper sought to promote a large degree of competition across the equipment and service sectors, while at the same time safe guarding the right of monopoly provision of basic service in member states by the post and telecommunications authorities (PTTs).

The sweeping changes recommended by the Commission covered the complete opening of the terminal equipment market, free provision of all value-added services, the clear separation of the regulatory and operational functions of the PTTs, a ban on cross-subsidies in any areas open to competition, definition of a framework for Open Network Provision, the creation of a European Telecommunications Standards Institute (ETSI), liberalisation of some satellite services, the harmonisation of tariffs across Europe, and the formation of a consistent trade and external relations policy.

The fact that the Green Paper stopped short of recommending competition on the basic voice telephone network was later endorsed by draft legislation in France and West Germany, which both rejected option of a UK Mercury-style second carrier.

In this regard, it is no co-incidence that the major area of disagreement over the Green Paper centred on competition in satellite services. The threat of bypassing the public telephone networks by two-way satellite links has long been anathema to the PTTs, and it now looks as if it will be some time before an "open skies" policy will be achieved in Europe.

Despite the divergence of opinion on this matter, however, the Commission found enough common ground to come up with concrete proposals which it intends to implement to a specific timetable. Its step-by-step approach will take the form of a series of directives.

The first of these, for the complete opening of the terminal equipment market by the end of 1990 has, not without controversy, already been issued.

A second, on the procurement of public network equipment, is expected in the summer, with progressive opening of the services market is planned to begin in 1989.

While consensus seems to exist on the substance of these directives, signs of strain have surfaced over the legal basis for implementing them. At an informal meeting of posts and telecommunications Ministers held last week, the Commission confirmed that it would proceed with plans to ban national monopolies in the Community's telecommunications terminal markets through the the rarely used Article 90 of the Treaty of Rome.

While all the member states, with the exception of the Netherlands, took exception to what they saw as the setting of an undesirable precedent in the use of Article 90, the Commission argued that its only alternative would have been to take case-by-case legal action against the PTTs.

Changes in role of telecom administrations

	Operation	At present	In future
a)	Exclusive provision of network infrastructure (monopoly/duopoly)	yes	yes
b)	Exclusive provision of limited number of basic services ("reserved services")	yes	yes (1)
c)	Participation in competitive services market (including VANS)	yes	yes
d)	Combination of regulatory and operational functions	YES	NO
e)	Protection from "cream skimming"	yes	yes
f)	Acceptance of common interconnect and access obligations for trans-frontier service providers	NO	YES
g)	Offer of certain terminal equipment on exclusive basis	YES	NO
h)	Offer of terminal equipment on competitive basis	yes	yes

(1) In the future, exclusive provision of services will have to be defined narrowly and be subject to review. Voice telephone service seems to be the only obvious candidate.

Source: CEC Green Paper, June 1987

The Commission is presently examining whether Article 90 will be used to accelerate future directives, but, politically, it is unlikely to risk too many disputes with member states.

Of the immediate policy priorities for the Commission, action is likely to focus on three relatively new additions to the telecommunications jargon – namely, ETSI, ONP, and WATTC. The establishment of the European Telecommunications Standards Institute to be based in Nice is already well on course, and will take over the role in standards setting presently performed by the club of European PTTs, known as CEPT.

Although little attention has been paid to the concept so far, the definition of a plan for Open Network Provision lies at the heart of the Commission's action programme. ONP will basically define the access conditions for value added service providers seeking to use the network, and set up a code of practice whereby the PTTs would guarantee delivery periods, quality of service, maintenance levels and conditions of use.

A plan for open provision of private leased lines will be published by the Commission in October, with general public data networks and the integrated services digital network following in 1989.

The forthcoming World Administrative Telegraph and Telephone Conference, which is organised by the United Nation's International Telecommunication Union (ITU) agency, has come under scrutiny because of its potential conflict with the Green Paper in moving towards a more liberal regulatory regime.

The possible extension of ITU rules to new services has raised the tantalising question of whether the Treaty of Rome or the WATTC regulations would hold legal precedence if differences were to arise. As a result, the Commission is urgently seeking an agreed position among the member states before the WATTC meeting in November.

Overall, then, are the Commission's plans for Europe-wide integration by 1992 realistic? Certainly many questions remained unanswered. The Green Paper is, for example, extremely vague on how its provisions will actually be enforced.

Moreover, major problem areas that exist within the telecommunication field today have been either not addressed or conveniently sidestepped.

These include a precise definition of just what a basic or value added service is; the treatment of private networks; the monopoly implications of new Intelligent Network technologies; the need for a coherent position regarding the future regulation and development of satellite communications in the Community; and the formation of a firm position on Europe-wide tariff structures.

On a more political note, the implications of liberalisation for the poorer regions of the Community do not seem to have been fully analysed. The Green Paper appears to ignore the significant differences that prevail between the telephone penetration rates in the peripheral countries and in the countries at the heart of the Community.

While much progress has been in the Commission's attempts to crack the past feudalism of the European telecommunications market, a tough road lies ahead.

The acid test will come when the more hardline PTTs are brought face-to-face with such realities as tariff alignment.

Denis Gilhooly

European liberalisation

Debate on approaches

MARKET LIBERALISATION has emerged as one of the main themes in the drive to reform the telecommunications industry over the last decade.

Indeed, deregulation is talked of so widely that it is tempting to see it as a single, coherent notion of a development path for both manufacturers and service providers. But the reality is very different.

In practice, liberalisation has significantly different connotations in different countries. This is largely because the starting point from which the legislators are tackling reorganisation at a local country level is so varied.

Telecommunications has historically been among the most carefully regulated industries, directly controlled by the State in most cases, and, if not, scrupulously monitored by independent agencies. These have proved fruitful conditions for developing unique national structures which do not respond easily to demands for freer cross-frontier trade.

The debate centres on two independent, though connected, areas of activity – equipment manufacturing,and telephone service delivery.

These two business sectors have been linked together throughout the world because of the telephone service operators' need for a reliable source of network equipment.

To ensure this, the telephone companies historically invested on their own account in research and development, collaborating with suppliers by either setting up their own equipment companies (as in the US), farming-out production to a controlled consortium (as in Japan), or guaranteeing markets for the equipment companies (as in most European countries).

Unscrambling these is proving easier to tackle at the equipment level than in the provision of telephone services. Indeed, the characteristics of a basic telecommunications network – its need for easy connectibility between subscribers and the demand for virtually universal connections – give it a shape into which it is not easy to inject competition.

Even on the equipment side there are problems, mainly centered on the main switches that form the control system of a telecommunications network. The design of these telephone exchanges is a crucial element in the architecture of the network as a whole.

This, in turn, means that the service operators have to be intimately involved in the development of the switches: they cannot simply buy new products off-the-shelf on the basis of straightforward price competition.

For this reason, liberalising the market in these more sensitive areas of basic network equipment is proving tricky.

Deals such as the takeover of ITT's telecommunications business by Alcatel of France, for example, are clearly driven by increasing research and investment costs, and the need to spread this expenditure over a wider market; but the scope for widescale change on this front is limited.

This said, however, various other categories of equipment supply are rapidly being opened up to competitive forces in Western Europe.

Taking the lead from the UK, where the market was thrown open in 1983, a number of European countries now allow unregulated installation of a wide variety of private equipment – telephone receivers, for example, or office exchanges and modems for converting data and voice signals.

Widespread monopoly control by the service providers only exists today in the one area of the first telephone receiver, a part of the market that has been deregulated only in France and the UK within the European Community.

On the telephone network side, two issues have emerged in the debate over deregulation: to what extent should the basic operation of the system be opened up to competition? And under what terms should independent competitors be allowed to use the telephone system to offer special information services?

In general, European countries, with the exception of the UK, appear to be opting to maintain monopoly provision for the network; at the same time, most are moving towards steady deregulation of information services – generally known as value added networks.

All of these changes are taking place within a dual framework of individual national activity and initiatives by the European Commission. Increasingly, however, the Commission is putting itself in the driving seat in an attempt to co-ordinate developments in a way that will simplify and standardise telecommunications services throughout the Community.

At the centre of this co-ordination effort lies the Green Paper on telecommunications,which sets out a series of steps for achieving an unobstructed market by 1992. Already, the Commission is moving on these recommendations,with a controversial constitutional move now under way to ban national monopolies in terminal equipment.

Later this year, the Commission is aiming to have detailed plans ready for a standard approach to leasing out public telephone lines to private operators across Europe.

The problem the Commission faces in pushing through this liberalising programme, however, is underlined by the marked contrasts that exist between telephone services in different countries. Unlike the US, where deregulation has taken place against the background of a relatively homogeneous continental market, Europe's telephone system is entirely based on national, and highly individualistic, service provision.

Despite these imbalances, however, the Commission's initiatives have led to a series of independent national reform programmes. Perhaps the most important of these is in West Germany, widely regarded as the key market in Western Europe because of the commanding size of the economy and the extraordinary influence of the Bundespost, the local service operator, and the largest civil employer in the region.

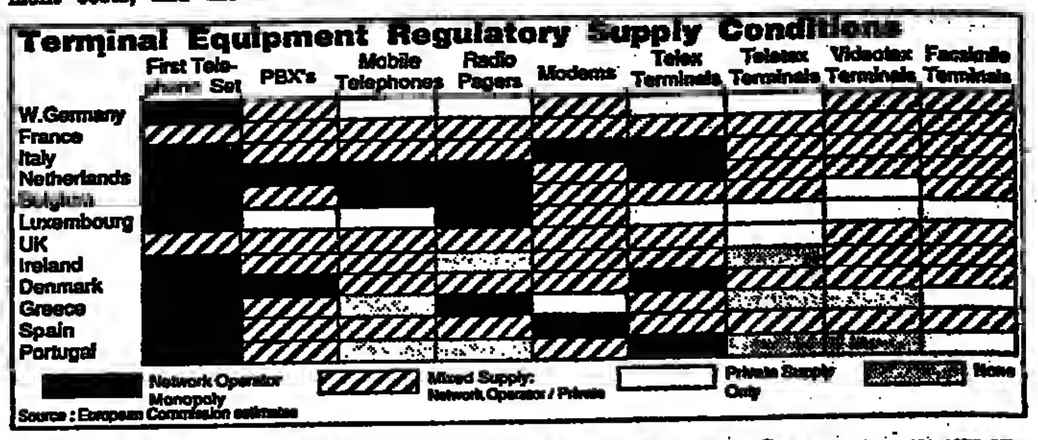
Following the Witte report last year, Germany now appears committed to freeing the terminal equipment market, splitting the regulatory function away from the network operator, and allowing competition into every service area other than voice telephony.

It has also recently injected more competition into satellite communications and mobile services; and, even in the area of voice telephony, the Witte report has created the opportunity for a challenge to the monopoly by stating that services mixing voice and data should be liberalised.

Of the three other leading Community markets in France, Britain and Italy, the first two are now well down the road to broady liberalised operations, although only the UK has moved as far as launching a new network competitor in the basic field of voice telephony.

Italy is talking of legislation to split regulatory functions away from the service provision, but its main focus at present is on a crash investment programme to modernise its network.

Terry Dodsworth



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Re-organisation and alliances

Industry as restless as ever

DYNASTIC MARRIAGES, annexations and *liaisons dangereuses* continue to change the face of the sector as corporations manoeuvre for advantage.

As regulatory barriers fall and technology advances, European telecommunications companies have found themselves particularly ill-prepared for survival in the changed landscape. Traditionally, the European market is nationally fragmented, protectionist and poorly developed. *It is* dominated by the national postal and telecommunications states monopolies (PTT), which are often locked into cosy relationships with national suppliers.

The 1980s have brought two particular problems for European companies: how to secure these national markets as liberalisation breaks down the carriers around them, and how to penetrate the international markets necessary to underpin success. The answer to both has been sought in national and trans-national linkups.

The last decade has seen a flurry of such courtships in every market as the industry has reorganised itself. Alliances, joint ventures, mergers, acquisitions, and collaborations have multiplied. The structure of the international industry, which had been organised along national lines with clear distinctions between gardware manufacturers, service providers and customers has been slowly evolving into a far more complex series of family relationships.

Companies in Europe, Japan and the US have come together, propelled by changes in the industry's dynamics:

- The rising cost and importance of research and development encourages the pooling of R and D expenditure.
- The internationalisation of hardware and service markets has put a premium on international marketing skills and secure market access.
- The so-called convergence factor has encouraged telecommunication companies to seek out data processing companies, and vice versa.
- Hardware and service providers on the one hand, and customers on the other, have come *together* to *develop* new value-added network services.

Public switching equipment, the hub of the telecommunications network, is at the centre of the reorganisations. Rising costs make it essential to share production and seek larger markets; the increasing sophistication of the machines makes them phanominally expensive, not only to produce but also to upgrade as digital technology advances. As the PTTs invest in the new digital exchanges, the main players in the public switching market are fighting for survival on the one hand, and profits on the other.

European companies have been at the heart of many of the complicated transactions. From *outside* Europe the major players have sought entry to the continent's protected markets, through, for instance, AT&T's *joint venture* with Philips of the Netherlands and its attempted purchase of CGCT, the French company. From within the continent, Europe's telecom giants have sought market access to the US by means of acquisitions, such as Plessey's purchase of Stromberg-Carlson in the US, and joint venture, such as the link-up between Siemens and GTE of the US.

One venture, in its potential for European industry if not its size, overshadows all the other European marriages of convenience. In 1986 CGE of France picked up the remaining telecommunications *interests* of ITT of the US, forming Alcatel. The new combine with projected sales of over $9bn has interests in several European countries as well as France, notably in West Germany.

In the second half of a well-managed package, CGCT, France's second largest telecoms manufacturer, was sold to LM Ericsson of Sweden, despite protests from the Germans and Americans that either Siemens or AT&T were the rightful victors. The deal seemed to many in the industry to be an elegantly pragmatic French solution to the problem of their telecommunications industry.

Selecting a partner is not easy, as recent events in Italy and the UK have shown. Italtel and Telettra, Italy's two telecommunications company, sought to find terms for a merger for two years before abandoning attempts ear*lier this year. GEC and Plessey of* the UK, after a messy and failed takeover battle by the former for the latter, sank their differences and formed a joint venture of their interests in the System X exchange earlier this year.

One important consideration is how far national solutions can remain desirable or practical given the importance of penetrating global markets, and the relatively small size of even the combined sales of European companies.

With the level of employment involved, the strategic gains from high technology industry, and the domestic sensitivity of the telecommunicatios industry, national solutions often seem *politically attractive*, though they may be economically dubious.

But the alternative – seeking partners outside the domestic market, perhaps outside Europe – *raises other problems. How far* can a venture with a much larger combine ever be on an equal footing?

It remains to be seen just how joint many of the joint ventures are, and how long they will survive. The present situation of tangled alliances is likely to prove only a half-way house to a broader international consolidation.

Conducting joint ventures brings its own problems. Separate organisations with diverse product ranges and management styles operating across international borders may hope for syn*ergy, but they often find confilc.* Nor is commercial success guaranteed, as APT – the joint venture in public switching equipment between AT&T and Philips of the Netherlands – has found.

The venture has failed to make much headway since its foundation in 1984 as a vehicle to sell AT&T technology in Europe. It has sold public exchanges for main networks only to the Netherlands, as well as some specialised equipment to the UK. Nor has AT&T found its joint venture with Olivetti an entirely *happy experience. Other joint* ventures have been concluded on the basis of inadequate or misleading projections of market demand.

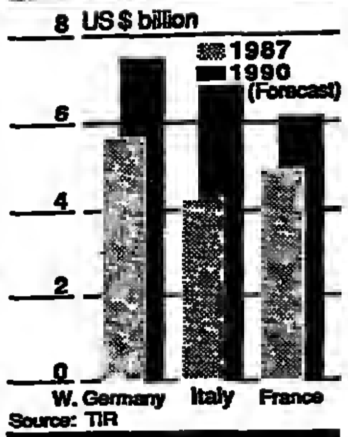
The key to Europe's role in the emerging global telecommunications industry almost certainly lies in the coming liberalisation of the sector within the EC, *under the guidelines sent out in* last year's Green Paper. With it will come a major opportunity: to create European-based manufacturing alliances that can compete in international markets with the North American and Japanese titans of the industry. But it also poses the threat of increased competition at home and lost domestic market share for the existing European giants.

If the spread of reorganisations and alliances has as yet raised more questions than it has answered, the answers thus may not be long in coming. Liberalisation of the European market will inevitably lead to a shake-out as telecom's markets mature.

Some European companies may find their place in niche markets; a few will become major global players; and others will be subsumed or will disappear altogether. Corporate marriages made in haste now, may be repented at leisure then.

Andrew Marshall

The top three



Source: TIR

EUROPE'S TOP 10 MARKETS (1987)
Telecommunications equipment

	$bn
West Germany	6.1
France	4.9
Italy	4.5
UK	3.4
Spain	1.6
Switzerland	1.1
Sweden	1.0
Austria	0.8
Netherlands	0.6
Norway	0.5

Source: Telecommunications Industry Research (TIR)

International trade frictions

Potent source of conflict

DISPUTES over telecommunications are a recent arrival on the global trade agenda. But the progressive – albeit slow – liberalisation of the sector, coupled with changes in its economic structure, have destabilised its political dynamics, making it a potent source of political conflict.

Europe is caught in the middle of this, facing on the one hand the increasingly agressive market opening tactics of the US, on the other the difficulties of selling its products in Asia and maintaining its market share in the third world.

The industry has traditionally been structured in terms of national economies and national regulation. Services and equipment were developed primarily for national networks, with manufacturers existing in a comfortable symbiosis with the national monopoly utility service providers (PTTs). The scope for trade conflict was small.

But a series of developments in the economics of the sector have begun to break down this rigid segmentation. In the first place, the rising sophistication and cost of public switching equipment has made it neccessary to spread the load of manufacturing and to seek larger markets. Secondly, producers in the developing countries, mainly in the NICS, began to challenge the hegemony *of the large manufactueres of the* developed world, firstly in basic products like handsets, but eventually in the higher value-added areas of the market.

The provision of services has also been subject to external pressures. As manufacturing industry internationalised its operations through the spread of overseas manufacturing plants and local branches, it required cheaper, more complex and more easily available telecoms services.

The service sector added to these pressures; in particular, the financial services industry with its need for instaneous communication between the world's financial centres, placed demands on the *local state monopolies which* they were often unable – or unwilling – to meet.

Telecom equipment manufacturers and service providers in the *developed* countries have been forced to expand their activites and find new markets. This has in turn put severe pressures on national regulation, and on the idea that telecommunications is a "natural monopoly". Europe, with its tightly regulated markets and state monopolies, has become a target of criticism, particulalry the US.

Trade friction is inextricably intertwined with systems of national regulation. The first cracks in the smooth regulatory facade appeared in the US in 1984 with the breakup of AT&T. The US was followed by Britain, and *to some degree* by Japan. By splitting off AT&T's local service providers from its long-distance business and its manufacturing sections, and opening up the equipment market, AT&T's divestiture lit a fuse that is still burning.

In opening up its market, the US created a powerful impetus for liberalisation worldwide. Overseas producers sought to enter the US market for equipment, with varying degrees of success; US manufacturers extended some of their efforts towards entering and opening markets abroad; the service providers, including the newly-created Regional Bell Operating Companies (or Baby Bells), increased the scope of their activities and began to look overseas.

The US continues to play the major part in determinng the agenda of international Telecoms trade. *In common with Europe, it has seen its trade balance in tele*communications equipment and services weaken sharply over the course of this decade.

To some extent, this is a function of the generally deteriorating US trade position. But it may also reflect the openess of the US market in relation to the rest of the world, and it has certainly been taken so to do by the US government. The US has become an active proponent of liberalisation of telecoms markets abroad in order to secure market access for US companies.

The US government has pressed Europe for deregulation and marketing opening measures to match those it has carried out, sometimes with the threat of *reciprocally withdrawing* market access for companies from Europe. The Trade bill before Congress at the time of writing contains several provisions that *would penalise countries* denying the US equal access.

Friction has developed in the last three years as pressure has been exerted by the Americans - and the British - on European regulators, especially the Germans, to ease their grip on regulation of the domestic market.

The US government has been backed up in this effort by US industry, which claims the cost of doing business in German business centres is made prohibitive by the tariffs and restrictions erected by the Bundespost, Germany's telecommunications state monopoly.

The result has been some progress; Germany has announced its intention to deregulate, albeit to a lesser extent than either the British or Americans, lowering barriers to value added services and equipment markets. It will also reduce its tariffs for calls and leased lines.

The US also found itself in conflict with Europe over the sale of CGCT, the French *telecommunications* manufacturer, with its 16 per cent of the French market. The US argued that CGCT should have been acquired by APT, AT&T's European joint venture. Despite their representations, and those of the Germans who claimed CGCT for Siemens, the company went to LM Ericsson of Sweden.

Relations between the US and Europe have improved in the last year, with evidence that Europe is moving towards greater freedom for overseas competitors and more regular dialogue between the US and EC officials. But the potential for increased conflict, particulalry over serivce-related issues, remains.

There is also the prospect of European friction with Asian countries over market access. With pressure growing on their domestic markets, European companies have been forced to seek out new markets. The EC has attempted to secure access for European companies to Japan and the the Asian Nics, again on the principle of reciprocity.

But the EC faces serious problems in developing a coherent approach to external telecommunications trade issues. In the first place, the sheer diversity of regulatory regimes and government policies within Europe currently makes a clear external policy virtually impossible. The EC is often left in the slipstream of the Americans, who have a relatively clear conception of where their interests lie and a straightforward approach, demanding reciprocality of access to markets.

Moreover, EC trade policy in general is to support multilateral approaches to trade issues. But there is little multilateral room for manouevre. The General Agreement on Tariffs and Trade either does not cover, or is weak on, most of the areas of conflict involved.

As the US has demonstrated in its dealings with Japan and the NICs, bilateral approaches have often proved more successful. It is an example that the UK has profitably followed, in, for example, its approaches to Japan over the attempt by a consortium led by Cable & Wireless to enter the Japanese market.

The EC has now become a fan of deregulation, producing last year a Green Paper on the liberalisation of the European market which it clearly intends to imple*ment despite the misgivings of* some EC members. This should help to clarify its policy.

The Green Paper is explicit about the value of liberalisation for European industry; but it also stresses the importance of "common definition of a consistent concept on relations with non-member countries." The EC clearly hopes that it can take a lead on telecommunications, both bilaterally and multilaterally within the new GATT Round.

However, the *picture* will continue to be clouded by the diverse nature of the parties behind EC telecoms policy. Even after deregulation, European PTTs are likely to have different approaches to *service provision* to European financial services companies. And many of Europe's telecoms manufacturers have joint ventures or investments in the US, as American manufactuers do in Europe. National arguments for or against regulation of markets are likely to become increasingly difficult to support.

Nor are the issues themselves clear-cut. Frictions have centred on the conventional issues of market access for equipment and services as well as regulation and freedom of foreign direct investment, trans-border data flows, and questions of government procurement practices. Thus, telecommunications trade is likely to prove a continuing irritant to the EC.

Andrew Marshall

Explosive growth in cellular mobile communications

A European boom industry comes of age

THREE EVENTS of a quite different nature have recently marked the coming of age of one of the European boom industries of the 1980s — cellular mobile telecommunications which has made available to executives in their cars the high quality communications taken for granted in their offices.

First, the number of cellular users in Europe passed the 1m mark in the middle of last month, not far behind the US which notched up the same figure in October — "It is a nice signpost to pass," comments Mr Nigel Cawthorne, who regularly tracks the figures for the journal, European Mobile Communications Report.

All observers agree that cellular will continue to register explosive growth in Europe. A projection recently prepared by telecoms analyst Mr Ed Mier for Dataquest, the US market research organisation, foresees annual growth of 40 per cent, with the number of subscribers reaching 3.5m across Europe by 1992.

Britain continues to lead the second wave of cellular countries, following the Scandanavian pioneers, with the growth of Cellnet and Vodafone, the two networks, apparently unaffected by the financial crash: there are now more than 300,000 British users. After a slow start, interest is also picking up in West Germany and France, which have more than 60,000 and 50,000 cellular subscribers respectively.

The second development which shook the cellular world last month was the decision by Racal, the UK electronics group which pioneered cellular in Britain, to float off its telecommunications division centred on Vodafone.

This was the first time a European stock market has had the opportunity to put a value on the frenetic cellular industry. Borrowing methods used in the US to value cellular franchises, City of London analysts came up with values ranging from £1.2bn to £2bn for Racal's telecommunications business. Racal's share price rose by almost a third in one day on confirmation that it was sitting on the modern equivalent of a gold mine.

Vodafone believes its separate quotation will put it in a stronger position to participate in the next generation pan-European cellular service, due to open in 1991, possibly by using share swaps for equity in other European cellular operations to cement relations. Vodafone has already joined BellSouth, one of the large US regional telephone companies, Fabricom, a Belgian group, Magneti Marelli, a Fiat subsidiary, and Bromley International, a Dutch company, in taking a small stake in the second French cellular network due to start operating next year.

The number of cellular system users in Europe passed the 1m mark in the middle of last month, not far behind the US which notched up the same figure last october.

The third — and most important — development of the past few months is the launch on cue of the first round of invitations to tender for the pan-European digital cellular service. The initial tenders are supposed to be for a fairly limited validation of the system, but one manufacturer participating in the exercise says they range "from quite short-term proving exercises to some options for full operational networks."

Either way, the companies which emerge from the initial round will be well-placed to win substantial chunks of orders for pan-European cellular. These should be worth hundreds of millions of pounds a year by the mid-1990s, according to one estimate.

Some clarity has been injected into the bidding process by the formation of cross-border consortia to chase the available orders. Alcatel of France has linked up with Nokia of Finland and AEG of West Germany. Philips of the Netherlands has joined forces with Robert Bosch of West Germany. Ericsson of Sweden has also developed links separately with Siemens of West Germany, Matra of France and Orbitel, the joint venture between Racal and Plessey of the UK.

Several more planks will have to be nailed into place before the forging of alliances for pan-European cellular is complete. There are a handful of key players which will almost certainly want to attack the unified European market in collaboration with partners. The most important is Motorola, the US company which rivals Ericsson for world leadership of the cellular equipment market. Another is the General Electric Company of the UK which recently failed in its bid to join the Orbitel partnership. The Italian companies have yet to announce partners.

Also hovering in the wings are a clutch of Japanese companies which have supplied much of the subscriber equipment for the present generation of cellular: NEC and Panasonic, for instance, have shown their commitment to Europe by announcing plans for handset manufacture in the UK.

Once this first round of tenders is settled it should become clearer whether an end is genuinely in sight to the nationalistic purchasing pattern which has characterised telecommunications in Europe. Will the French win much business in West Germany? Will the Germans sweep up contracts from the two British operators?

Participants in the process believe there will be some surprises, if only because the operators will want to keep their established suppliers on their toes. Operators will be able to leave their options open more easily than with the present generation of cellular equipment, because the new standards make it easier to take the switches and the base stations from different manucturers.

Meanwhile, other sectors of mobile communications are showing interest in following the path charted by cellular - the evolution of common standards to underpin a genuinely European market. Officials have been busy exploring whether a similar approach could be applied to the next generation of cordless phones, paging and private mobile radio.

David Thomas

A quiet revolution spreads to France

WHILE public interest in mobile telephone systems has been concentrated recently on the innovative field of cellular technology, the traditional radio car phone industry has also been undergoing a quiet revolution in Britain.

A mixture of modern switching methods and a new regulatory environment, which has brought fresh licencees into the market, has transformed the UK business, and now looks set to spread to France.

At the heart of the new system are digital switching techniques which make better use of the available radio channels.

Under the old technology, customers had their own dedicated network, or subscribed to open lines on which conversations could easily be overhead by other users. The new Band Three technology, as it is known, switches calls onto whatever line is available among the channels run by the service operator.

The lines are private, are of higher quality than the old ones, and the system is substantially cheaper to use than cellular - estimates suggest that user costs for subscription and call charges will run out at an average of about £450 a year against about twice that for cellular subscribers.

Customers will also be able to opt for a simple local service, for a larger regional one, or for national coverage - calls will eventually be switched through the regional network to give this wide area service.

Two companies have been licenced to provide this national service by 1991 - Band Three Radio, a consortium of Philips (28 per cent), Racal (25 per cent), Securicor (25 per cent), and Digital Mobile Radio (22 per cent); and National One, a subsidiary of the General Electric Company. National licences are likely to be granted soon in France; and enthusiasts for the technology are already talking about a pan-European programme.

Terry Dodsworth

Profile: GEC/Plessey

Alliance raises key questions

THE MERGER of the telecommunications activities of Plessey and the General Electric Company has been in the making for such a long time that its finalisation on April 1 was something of an anti-climax.

Neither company had made any secret for the last two years of its desire to move closer to the other, only the form of the alliance — the takeover of either one by the other, a joint venture or a merger — remained to be settled. In the end, they compromised on an arm's-length subsidiary — renamed GPT — in which each has an equal holding of 50 per cent.

Now that the marriage has been consummated, however, the questions have begun. Has the alliance come too late? Is GPT still too biased towards UK operations?

How can it compete against the world telecommunications giants? Does it have the resources to stay in the immensely expensive business of designing and manufacturing public switches?

The domestic market is expected to show 50 per cent growth this year and 30 to 40 per cent next

None of these issues challenges the logic of the merger itself. Indeed, as Plessey pointed out to shareholders in its circular about the deal, there were compelling reasons for it.

Foremost among these was the fact that the two companies had worked together on the development of the System X digital exchange which will be the flagship of the new group. Having created the product together in the first place, they were in the somewhat absurd position of selling against each other competitively to British Telecom, a customer with a virtual monopoly of orders in the UK. Overseas, they had split up the market to avoid overlaps.

Three other main arguments have been advanced by the companies in support of the deal:

The first is the growing homogeneity being forced on the industry worldwide. International voice and data links are easier to install, operate and develop if the equipment supplied in different countries is similar. But as the products become more interchangeable, the competition for traditional suppiers that have enjoyed special arrangements with their customers is bound to grow.

Second is the acceleration in technological development that has occurred over the last 10 years. The arrival of digital switches and fibre optic cables signalled the watershed, and each of these has cost substantial funds to bring to the present state of development.

They are now leading, however, to a further wave of new products and services, many of which ware only vaguely dreamed of a few years ago, and which will all stretch the funding capacity of the industry.

These embrace areas such as cellular mobile telephones, digital cordless telephones, satellite communications and the merger of voice and data services. Success in this more vigorous, but also more open and challenging market, will demand a strong capability in research and new product development, combined with a sufficiently high level of sales to generate the funds for investment in these resources.

Third, the alliance gives the merged company opportunities for rationalisation and improved procurement. Both of the founding partners have plants making similar products spread across the UK; both are marketing to the same customers in Britain; and overseas the sales teams can be welded together into a joint operation. It is expected that up to 3,000 jobs out of approximately 20,000 might be eliminated as a result of efficiency improvements.

On top of these strategic arguments for the merger, GPT can also point to several strengths that go some way to challenging the doubts of the sceptics. Both constituent companies, for a start, are highly profitable, generating combined pre-tax profits in the year to March of about £160m on sales of £1.17bn — a much higher rate of return, at 13 per cent, than most international telecommunications companies.

They have also established an extremely solid base in the UK public switching market, despite the decision of British Telecom to bring in a new supplier in the shape of Thorn-Ericsson.

Assuming GPT maintains a UK market share of around 70 per cent, it will have a much more dominant position in its home market than Siemens, for example, which only has about 46 per cent of sales to the West German Bundespost. And overseas, GPT has a fairly solid foothold in the US public switch sector through Stromberg Carlson, the Florida-based company inherited from Plessey, and already established as a supplier of digital exchanges to the Bell regional companies.

Finally, the combined group will have a broad spread of technology that should enable it to respond to the extremely varied market demands that are developing. Only about one-third of its activities are in public switching. The rest are in transmission, private exchanges, cables, and a variety of developing activities *such as videoconferencing systems*.

The reason that some analysts believe that the group remains vulnerable, despite these advantages, lies in the way the rest of the world industry has changed. The gradual push by American Telephone and Telegraph into world markets, the creation of the enlarged Alcatel through its merger with ITT's telecommunications activities, and the overseas developments of both Siemens and Ericsson mean that GPT still ranks only about seventh in the world league.

In the public switching area in particular, it may find development funding difficult at such a level of sales.

This presupposes, of course, that switching will remain as important in the industry's product portfolio as it is today — something that many executives now challenge. And it also ignores the fact that GPT may have plenty of other developments in store once it has pushed through its reorganisation at home.

As a combined group, it will be a much more attractive partner for an overseas ally than its constituent parts were before; and it will no doubt be looking for alliances itself.

Terry Dodsworth

■ COMING ASHORE: engineers, left, carrying a fibre optic cable for British Telecom International's latest UK-Denmark undersea communications link. This took place at Filey in North Yorkshire and the cable will run to Blaabjerg, Denmark. Once operational, the link will double the communications capacity between the UK and Scandinavia. The cable will carry voice and data traffic, as well as visual communications.

Cables and satellites

Warning for early birds

THE EUROPEAN Satellite Organisation – Eutelsat – is planning to launch four new medium-power satellites for both television and telecommunications.

The first of the new generation of communication satellites, already on order, is expected to be launched at the beginning of 1990 either by Ariane, the European space rocket or by an Atlas Centaur launcher. The next three satellites are scheduled to follow at three month intervals giving an enormous boost to European satellite capacity.

Mr Andrea Caruso, director general of the Paris-based organisation which groups all of Europe's post and telecommunication administrations, made it clear recently that the first two satellites would be used to relay television channels and the following two would be used for telecommunications.

For the moment, at least, there is a growing market for the provision of new television channels by satellite, a market that appears to be growing faster than demand is outstripping supply in telecommunications.

Each of the new television satellites will be able to relay 16 channels of television to receiving equipment with dish aerials small enough for individual homes. Deposits have already been placed by programme-providers for a large number of the new Eutelsat channels.

The new Eutelsat project is likely to mean head-on competition for Astra, the private sector medium-power satellite project put together by the Luxembourg-based company, Societe Europeenne des Satellites.

Astra will should be able to able to deliver 16 channels, as many as nine of them in the English language, to dish aerials of around 60 cms in diameter to around 90 per cent of the populations of the key television markets of the UK, France and West Germany.

The danger that Astra now faces is that potential users such as Sky Channel, Mr Rupert Murdoch's general entertainment satellite channel, Super Channel, Premiere, the film channel, or MTV, the pop music channel, will wait for Eutelsat in 1990 or at the very least use the threat to drive down Astra prices.

Certainly, Mr Caruso, who initially opposed the introduction of Astra but later relented as long as it remained a television satellite and not a telecommunications carrier, is not optimistic about the private sector satellite chances.

At the first annual dinner of the European Satellite Television Association in London earlier this year Mr Caruso said he believed it was erroneous to believe that anyone could make money out of satellites alone because the amount of money needed to establish and support the space segment was enormous.

"That is why the only credible international satellite systems that I know of are those which are backed by a large number of PTTs which consider a satellite to be a link in the chain of the global telecommunications network – and not an end in itself," Mr Caruso warned.

As the coming battle of the medium-power European satellites begins to shape up, the arrival of the high power direct broadcasting satellites, have – with the exception of UK plans – been delayed.

The West German direct broadcasting satellite, TV-Sat, was successfully launched by Ariane last November, but was never able to transmit a single picture back to earth. One of the solar panels failed to open and obscured the satellite's receiving dish and, in the end, the West German Bundespost had to declare the satellite a write-off.

There are plans now for West Germany and France to share the delayed TDF-1, the French DBS satellite.

Because of the delays in launching DBS in Europe the market for receiving equipment has scarcely developed.

The industry hopes, however, that by 1990 when a number of medium and high power satellites are beaming television pictures over Europe, the technological promise of satellite television will at last be realised.

In the UK, British Satellite Broadcasting, the consortium awarded Britain's DBS franchise, says it is still on target for the launch of the first of two satellites on August 15 next year and the launch of three new channels of television before Christmas.

The £625m BSB project, whose investors include Granada, Pearson, publishers of the Financial Times, the Bond Corporation and Reed International, plans to give three electronics manufacturers exclusive rights to supply receiving equipment for the first three years. The aim of the strategy, which has provoked controversy with manufacturers, is to get the price as low as possible through economies of scale. BSB says it believes that a retail price of around £200 is feasible.

As BSB begins to put major programming contracts out to tender for news, children's and women's interest programming cable television continues its steady advance, although at very different rates in different companies.

According to Dr Burkhard Nowotony, managing director of the West German cable and satellite association, cable is available to more than 8.8m homes, 34 per cent of the total, with nearly 3m homes subscribing to satellite television channels through cable networks.

In contrast to West Germany where the Bundespost has made major investments in cable, developments in the UK has been much slower because the industry has been funded entirely by the private sector.

The number of subscribers has this year only passed 250,00, but there is a growing sense of optimism in the British industry.

Major American players have demonstrated an interest in significant cable investments – Prudential Bacce, the US securities and financial services group, has recently said it is willing to commit up to $100m to cable in the UK.

Last month, the Cable Authority, the industry's regulatory body, advertised six new cable franchises, covering a total of 1.5m homes.

Despite growing signs of life in the cable sector, a recent report by CIT research warned that although the media business in Western Europe was growing by some 10 per cent a year, the new media of videotex, cable and satellite still accounted for only a tiny share of the revenues, with many projects losing money.

For those companies wanting to get into cable and satellite for strategic reasons, the CIT report warned: "Patience is the key – there are no early-bird rewards."

Raymond Snoddy

Value added network services

A flowering of suppliers

AS INFRASTRUCTURES go, the telephone network has had a brief and unusual history. For almost a century it changed, if at all, at a snail's pace. Each of Europe's telephony organisations was run by civil servants anxious to preserve rather than alter.

The twin blows of computer technology and the rightward shift in state policies over nationalised concerns, ushered in the age of free-market entrepreneurs eager to create businesses from the tangled cobweb of copper wires pains-takingly spun during decades of bureaucratic management.

That is the theory, anyway.

The entrepreneurs are certainly there. They sell value added services – effectively just about anything other than a simple telephone conversation. Examples range from share price information on radiopagers through automatic stock ordering between retailers and wholesalers to Europe-wide communications for the reinsurance companies.

But national differences, entrenched interests and mistakes in marketing and technology have sometimes hindered what has been seen as a European boom industry of the 1980s and 1990s.

Market research has been unequivocally bullish about value added services. The sector was worth $900m in Western Europe in 1986, according to one report.* This figure will grow at an average yearly compound rate of 40% to reach $4,865m by 1991. The UK is the biggest market with 35% share in 1986, dropping to 25% in 1991, just ahead of France.

West Germany is, and will remain, a relatively small player mainly because of the tight control the telecommunications authority (PTT) keeps over who provides such services and by what means.

Although France and the UK are the front-runners in Europe, there are striking differences between them. The UK has privatised British Telecom, deregulated the market and introduced an element of competition at the level of basic conveyance – control of the physical telephone network.

The result has been a flowering of value-added network suppliers, both large and small. British Telecom supplies basic conveyance and value added services. They include Telecom Gold electronic mail (about 120,000 mailboxes) and Prestel videotex (80,000 subscribers). Other big players include IBM, GE Information Systems, EDS, the electronics subsidiary of General Motors, Istel, once owned by British Leyland, and INS part owned by computer company and STC subsidiary, ICL.

These large players rent lines from British Telecom and/or its licenced competitor, Mercury, to establish a national network. They sell capacity and management to, for example, the building society cash dispenser network run by Matrix.

A little down the scale are information sources such as the Financial Times-owned World Reporter database of newspaper stories and share brokers' reports on Prestel Cityservice which are reached through the public network and paid for by a combination of usage and subscription. Such one-way dissemination of information accounts for 85% of the UK text and data value added services market; the Frost and Sullivan report says that growth in this sector will slow because most people who want such on-line access already have it.

At the bottom of the value added services pile are hundreds of bulletin boards, many run from back-bedrooms in suburbia, which include such diverse topics as hints on how to win computer games to a quick alert for drug side-effects noticed by general practitioners.

Despite this lush growth, some new species have withered. Last year, a joint venture in electronic document exchange between British Telecom and McDonnell Douglas closed after it failed to attract any customers; the One-to-One electronic mail service now has its third owner in five years after failing to mount a successful challenge to the near monopoly of Telecom Gold.

French telecommunications policy bears little resemblance to that of the UK. France Telecom remains state-owned – although the neo-Gaullists under Prime Minister Jacques Chirac have made some preparations for privatisation – and the Government has not introduced competition for the supply of the basic conveyance.

Instead it has taken a centralised approach firmly in the French tradition of flagship state projects. The policy revolves around the 3.5m Minitel terminals distributed free as electronic telephone directories to replace the familiar printed ones.

France Telecom says that nearly one in three of the population now has access to a Minitel at home or work.

Although France Telecom runs the Minitels, the value added services market was officially deregulated on September 25 1987. There are several thousand suppliers of value added services who can seek customers through the network. The infrastructure has become part of national life – warts and all. As well as theatre bookings, train timetables and sports reports, there have been cases of child sex rings and drug-dealing via the Minitel network.

One company recently created to offer value added services is Axone, 45% held by IBM, 20% by Credit Agricole and the remainder by the Paribas groups of which Semi-Matra has 5% and Credit Nord, 4%.

The Minitel network is about to be made international through an agreement with the Deutsches Bundespost (DBP) in West Germany. "Result in Frankfurt will be able to access the Minitel network as easily as if they were in France," said Patric Buré of France Telecom.

Co-operation between public telephone bodies may smooth a path around the minefields of regulatory paperwork but this is the exception rather than the rule. More usually, corporations set up Europe-wide networks to serve multinational clients.

IBM Europe plays host, for example, to an eight-nation reinsurance network, called Rinet, which includes Mercantile and General in the UK.

IBM is putting a lot of effort into attacking a single European value-added services phenomenon, according to Mr Geoff Wiggin, director of GE Information Services in the UK. GE has retained a nationally-oriented management and sales structure.

"European companies still see themselves as national companies, and want to deal with national suppliers," he says. Although it has national sales operations, it runs its European network from Amstelveen in the Netherlands and handles over 250,000 user-sessions a day.

Irrespective of internal organisation, many of the big operators are united on prospects in the main European markets.

"In the league table of opportunities, the UK is in the lead but France is moving very rapidly," said Mr John Wishney head of telecommunications services at EDS. "The DBP (Deutches Bundespost) is still holding back although there are signs they are easing their dogmatic stance."

The technical obstacles to creation of a single European market for value added services are disappearing. Each country has agreed to adopt ISDN – Integrated Services Digital Network – a set of standards covering all aspects of telecommunications.

Political differences are rather more intractable. The European Commission's green paper earlier this year and the subsequent European Community move toward a ban on some monopoly positions held by PTTs may, or may not, set the liberalisation ball rolling. Even if they do, there will be questions over how far this should go. There is much resistance – from IBM, the Deutches Bundespost and non-Thatcherite political groupings to name but a few – to notion of abandoning monopolies over basic conveyance in the way that the UK has done.

"The established corporations are as much against liberalisation as some of the PTTs," said one industry observer cynically. "They don't want too much competition for their value added networks."

* *The European Market for Value-Added Network Services, Frost and Sullivan, August 1987.*

Danny Green

The Network Communications Centre of GE Information Services' 'supercentre' at Amstelveen, in the Netherlands. The network has 1,000 processing and communication computers.

Profile: the Alcatel group

Emphasis on continuity

IT IS tempting to see the formation of the Alcatel group, a little over a year ago, as simply another move in the continuing rationalisation of telecommunications switch-manufacturing in Europe.

But it was far more than that. It resulted in a very broadly-based group with activitiee spread-eagling most aspects of telecommunications manufacturing; and it brought into being an extremely large company, second only to American Telephone and Telegraph of the US in the world league of telecommunications equipment producers.

From the start, critics have claimed that this organisation was too broadly-based to succeed. Alcatel, they argued, would have excessive probleme in welding together activities inherited from its constituent companies – the old CIT Alcatel of France, and the telecommunications interests of ITT, the US conglomerate. There would be difficulties, it was said, over both technology and managerial organisation as the French management of Alcatel came to grips with the US-based style of ITT.

Alcatel's approach to this challenge so far has been based on a long-term strategy rather than a quick fix. In both managerial and product terms, the company has emphasised continuity. There have been no dramatic closures or changes in product line, and the managerial structure has been re-shuffled more quietly than would have been typical of an Anglo-Saxon organisation.

Nevertheless, the new shape of Alcatel has become steadily more visible over the last year through a series of policy initiatives:

■ The company has put great emphasis on its international character and structure. Despite the fact that the group came into being from a takeover by Alcatel, English has been adopted as the official language of the organisation, the operational headquarters are located in Brussels, and the company has adopted the European ECU as its common reporting currency.

■ Activities peripheral to mainline telecommunications have been mostly divested. These disposals have included some software companies in France, a manufacturing business in Sweden, and the consumer electronics division of SEL, the West German arm of the former ITT business, to Nokia of Finland.

Alcatel says that this division would have needed enbstantial investment to compete effectively in the television and audio markets.

■ Product development has continued on the group's two main switches, the E10 inherited from the former CIT Alcatel, and the System 12 of ITT. Many analysts argued at the time of the merger that the company needed to abandon one of the products to achieve economies of scale. But Alcatel contends that it needs to support the equipment in order to maintain the loyalty of customers in the future.

There have been no dramatic closures or changes in product lines. Managerial structures have been shuffled relatively quietly

■ It is tackling the issue of product streamlining largely by looking to develop a common line of equipment for the next generation of orders. One example of this is in the field of Integrated System Digital Networks (ISDN), the technology aimed at bringing together voice and data communications over the same public networks.

Alcatel's ISDN product will be essentially the same for attachment to both the E10 and System 12 switches. There will have to be some diffances, tha company says, to adjust the interfaces for the different switches; but the cost will be substantially less than developing two entirely different ISDN products.

■ Rationalisation has been pushed steadily ahead, bringing the group's headcount down from 145,000 to 137,000 through disposals and internal reorganisation. The main change has come through disposals and a reorganisation of the research laboratories, trimmed from 18 different centres to 11, and employing around 15,000 in total.

■ The group is now organised in five main divisions, none of which had much more than one-fifth of its total business last year. The two largest of these were public switching and networks, which accounted for 22 per cent of turnover in 1987, private exchanges and terminal equipment (also 22 per cent) and cables (21 per cent).

Transmission products account for another 14 per cent, while the consumer products and components contributed 19 per cent – now going down because of the disposal of consumer equipment. A further 2 per cent came from maintenance and plant installation, an area which is likely to expand.

■ It has moved to establish a position in the promising new field of digital cellular car phones by linking up with Nokia, a company that has already moved into various parts of the existing mobile telephone industry, and AEG of West Germany.

How far these changes will meet the points raised by the critics remains to be seen.

On the positive side, Alcatel clearly has a number of opportunities. It has a powerful market position in Western Europe, with large-scale sales in both France and West Germany; it is strong in the transmission area, where telephone companies are investing heavily at present to reap maximum advantage from their new digital switches; its cable division is one of the leading worldwide businesses in the field; and it has inherited an international framework of operations which could allow it to turn into a genuinely global competitor.

Alcatel can also claim to have made some progress in mobilising its market muscle. Its cable divison, for example, recently won a large order for a new submarine fibre-optic line between Australia and New Zealand, an order which gives it a foothold in the expanding Pacific zone, previously dominated by American and British companies. Most of the initial teething problems of System 12 also appear to have been overcome, with several initially critical telephone companies now re-ordering the equipment.

Nevertheless, in the longer term, the company still has to show that it can reap the full benefit from its commanding size. Its results last year showed only a three per cent return on sales, with net after-tax profits of ECU 346m ($400m), on turnover of ECU 11.2bn ($13.9bn).

This was about one percentage point better than the company had forecast, and showed that sales had been meintained despite the disposals and rationalisation. But this performance certainly does not as yet establish the group as a stellar performer in an industry where cross-frontier competition will inevitably increase.

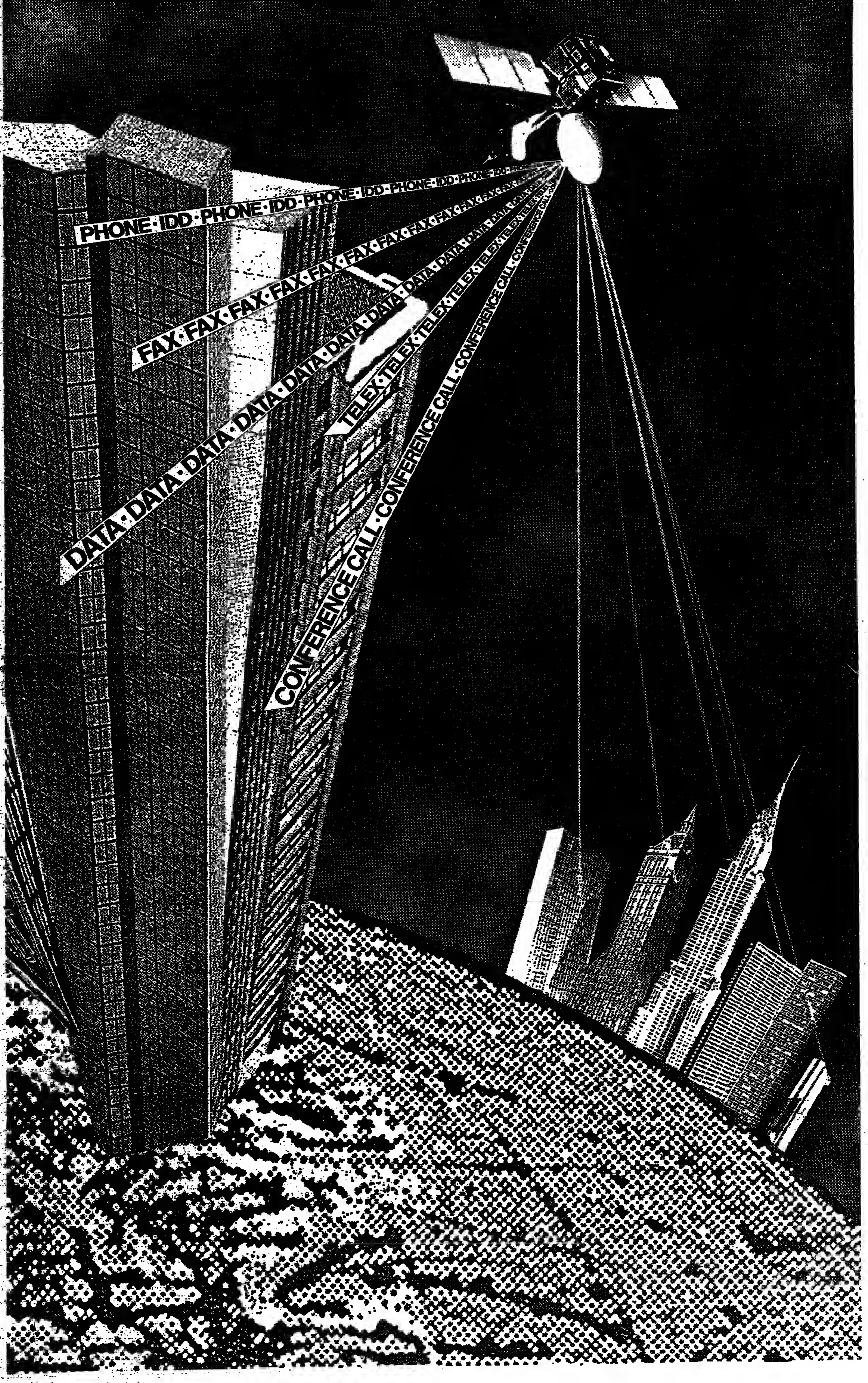
In summary, Alcatel's sales in major business segments during 1987, in Ecu millions, were:

Business systems: 2,923.8; public ewitching: 2,510.2; cables: 2,385.7; transmission: 1,623.8; other business segments: 2,554.2 total sales: Ecu 11,197.5m.

Terry Dodsworth

هكذا من الأصل

Bounce a few ideas off the chaps across the water.



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British TELECOM International

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Advantages of a computerised pigeon-hole system

E-mail clears a hurdle

ELECTRONIC MAIL has been available in the UK for a number of years, but many medium-to-large companies have yet to experience its advantages. The reason for this is unclear, but it is still true to say that certain types of management are only now coming to grips with computerisation, and the (imagined) added complexities of connecting the computer to the telephone line have resulted in the ponderous acceptance of this new method of business communications.

If a user's existing computer installation uses a local area network (LAN), he or she probably already uses a simple version of electronic mail to send documents and memos between departments. The problem arises in contacting other users, not on your system. There are a number of companies offering electronic mail (or E-mail) and although all these systems operate differently, *the basic method of connection is* identical, and it is possible to purchase an "E-mail kit" which provides all the necessary hardware and software to access the *service of your choice.*

Electronic mail has been described the modern-day replacement to telex, providing instant written communication between two or more remote sites. Where telex requires a capital investment of several thousand pounds and minimum monthly charges of £30, E-mail can be yours *for only a £200* "modem" (modulator/demodulator), your existing computer and a minimum monthly charge of £5.

When considering electronic mail systems, potential users need to be aware of the advantages and disadvantages of E-mail when compared to a traditional telex system. The following comparisons are based on British Telecom's service, Telecom Gold:

□ E-mail enables messages to be sent to 500 destinations as quickly and as easily as to one destination – and for the cost of only one message.

□ The system offers many more facilities than telex, among them the ability to receive confirmation that a message has been read; thus requiring a recipient to reply to a message; the systems allows for the preparation of a message in advance to be sent automatically at a pre-defined date and time; foward receiving messages onto third parties, adding your comments; send copies to colleagues.

□ E-mail is far cheaper – capital costs can be less than 10 per cent of telex, and operating costs are far lower, too.

□ E-mail is person-to-person communication; you do not have to know where someone is to send a message, which can be received almost anywhere in the world.

□ Terminals for E-mail can be smaller than a portable typewriter, allowing individuals to have one on their desk, rather than an inefficient telex room. E-mail allows full upper-and-lower case letters, and a wider range of symbols than telex.

□ The system gives access to online database information (such as Jordans, Airline Guide, Infocheck etc) "on demand" without having to pre-register. With the implementation of the new X400 protocols, it is now possible for users on dissimilar systems to make contact.

The system offers many more facilities than telex - and is far cheaper

□ Messages are not automatically delivered to a user's terminal; you have to make a telephone call to retrieve them (however, a BT radio-pager can be used to alert users that a message awaits collection).

The user-base of telex *machines world-wide is far* higher than electronic mail, though that is changing slowly.

Essentially, electronic mail is a computerised pigeon-hole system. It can used with a simple terminal, anything from an electronic typewriter to a business microcomputer – providing it can communicate with a Modem over telephone lines. The only other requirement is an ordinary telephone line, and as incoming calls will not be a problem, there is no need for a dedicated circuit – an extension from the office PABX is adequate.

Your computer places a call to the central electronic mail computer located in London and you confirm the mailbox you wish to access, along with a security password. Communication thus established, it is possible to prepare messages before accessing the E-mail computer, so minimising the resulting time-based charges. Incoming messages can be spooled direct to disc on your computer and read at leisure.

There has been no printed "hard copy" of your communications so far, but this can be remedied by switching on the computer printer, which gives users the flexibility of deciding what items require printing ont. A library of these messages can be stored on disc and recalled/printed as often as required.

Most forms of communication - telex, fax, post, telephone (except cellular) are classed as place-to-place. The message is conveyed to the same telex terminal/fax/address/phone number, whether or not the recipient happens to be there. Because electronic mail messages are stored on a central computer, they can be retrieved by the mailbox owner wherever he/she may happen to be; New York, London, Paris, Manchester – just as easily as when office-based. At present, 55 countries offer low-cost access to all the major E-mail systems and this number is steadily increasing.

Electronic mail is not simply an enhanced version of telex – but this is easily confused by the fact that companies are presently developing an *incoming* telex interface, this will give users their own telex numbers and answer-back and will deposit a telex automatically in a user's *mailbox. At present,* telexes can only be delivered if the E-mail mailbox number is quoted on the first line of the communication.

There are three major E-mail providers offering service in the UK:

□ Telecom Gold: the service commenced early in 1982 and was based on the US ITT/Dialcom system. British Telecom marketed the system aggressively and it has become the largest E-mail provider.

BT eventually bought out Dialcom worldwide with centres in the US, Australia, Denmark, Canada, New Zealand, Germany, Hong Kong, Puerto Rico and Israel, to mention only a few of ssociated computer centres.

Full incoming and outgoing telex service, exclusive telex number facility available later this year; radiopaging interface. Details from Telecom Gold - 60-68, St Thomas Street, London, SE1 (Tel: 01-403 6777).

□ Mercury Link 7500 – Formerly called Easylink and identifies it as the service from British Telecom's arch rival, Mercury Communications.

Launched in June 1984, the service is still evolving and was the first to offer an automatic incoming telex facility. International connections are via the Easylink network. It is possible to instruct the Mercury Link computer to call you and deliver a waiting message, but a dedicated telephone line would be required; radiopaging facility for Mercury and BT pagers; no European computer centres; files cannot be stored; details from Mercury Link, Brentside Executive Centre, Great West Road, Brentford, Middlesex (Tel: 01-528 2000).

□ One-to-One: The youngest of the "big three" in this sector, it started in 1985. One-to-One is probably the simplest of all the services to use, but it lacks enhanced facilities. Radiopaging interface, but beware of the costly "121" pager – it is cheaper to hire a BT one, claim users. More details on the service from: One-to-One, 102 Sydney Street, London, SW3 (Tel: 01-351 2468).

One of the major stumbling blocks with electronic mail systems was that of compatibility. Users of one system could not exchange messages with those on another. An Easylink subscriber in the US could easily send a message to a colleague in the UK, providing he was on the equivalent Mercury Link 7500 service. But if a cross-system link was required – from a UK Telecom Gold subscriber to a US Easylink recipient, it proved impossible to proceed.

That was the case until late last year when an X400 data exchange protocol was developed and implemented by British Telecom. This facility acts as a buffer between different systems and permits messages to be directed from one system to another, automatically packaging them into a format that is recognised by the receiving system.

The installation of X400 equipment in all the major data centres opens up an era of true international cross-system communications.

With electronic mail compatibility now clearing the last hurdle, the way ahead has never been brighter, and electronic mail address codes will become as familiar on business cards and letterheads as the existing telephone and telex number.

Jon Moggridge

Switchboards

West Europe market buoyant, but replacements are the key

BRITISH TV-viewers and newspaper readers could be forgiven for thinking – after viewing the recent TV commercials and press advertisements from the jazzily relaunched "Department for Enterprise" – that 1992 had only just been invented. That is the year, they tell us, that we should be working towards – because, by then, all trade barriers within the European Community will be removed and Europe will indeed become a "single market."

However, in telecommunications, strategists have been working towards this goal for many years now. This is particularly true in the market for PBXs (private branch exchange) – or switchboards, in less-technical terminology.

Research by MZA, UK telecommunication consultants, reveals that the UK, Italy, France, Belgium and Germany have all liberalised their telephone systems market to some degree and that Holland and Sweden are soon to follow suit in 1989 and late 1988 respectively.

While monopoly positions are yielding to open markets and giving European suppliers access to a wider range of customer, it also exposes them to foreign competition. During the past five years competition from North American and Japanese suppliers will be felt.

Turning to competition within each national market (where "liberalisation" has occurred and private independent suppliers are now able to compete with former monopoly holders) an interesting pattern has emerged.

It appears that the independent suppliers have been most successful at the higher end of the market – between 11 and 100-line systems – but have not been so successful at penetrating the small systems market (systems under 10 lines). This market remains noticeably dominated by the public telephone companies – the former monopoly holders – for several reasons. Included in the reasons for this are:

□ Small businesses tend to view the former monopoly holders as the "natural choice."

□ Larger companies generally have specialist personnel looking after their telecommunications needs and therefore tend to shop around for the best deal.

□ Taking the UK as an example, the margin for independent dealers is less attractive at the lower end of the market and hence systems tend to be less aggressively sold by the independent suppliers.

□ There is naturally still some user ignorance about the existence of the independent sector.

The Western European market for PBXs is buoyant and looks set for a steady growth of 16.2 per cent from $2.9bn in 1987 to $3.37bn in 1992, claims a recent Telematica report from Logica, the UK telecommunications consultants.

The market, however, is highly saturated with many major companies having completed the modernisation of their telephone systems. Replacements dominate shipment levels with up to 69 per cent of total shipments in 1987. This, claims Logica, will rise to 78 per cent in 1992 as users replace equipment with increasing frequency. At present, users replace systems every nine years, but this is expected to drop to under eight by 1992.

Telephone systems, in general, fall into three categories: key systems, hybrids and PABXs (private automatic branch exchange).

Usually a PABX is intended for fairly large companies and has a switchboard operator fielding incoming calls. The system can be equipped with standard telephones with features being selected by the use of special codes.

Key systems, however, are aimed at the smaller company, although some systems can go up to 25 extensions. With a key system any extension user can accept incoming calls from any line. The system's features are packed into the phone and are button operated. Consequently the telephones are more expensive than the standard instruments connected to PABX. Key systems are generally aimed at companies with a heavy volume of calls, such as estate agents, travel agents, busy sales departments and so on.

A hybrid system falls some where between a key system and a PABX and allows the user to use either standard or feature "phones (these are telephones with their own microprocessor that can access the special facilities of the system without going through the operator). Hence, the user can tailor the system to his needs.

If a particular extension has a high volume of calls then it would be equipped with a feature phone. If, say, the extension was in the warehouse then it could be fitted with a cheaper standard telephone and the switchboard operator would field the calls.

Regrettably, the range of equipment is not as clearly defined as this. Some key systems can be fitted with an operator console for instance. PABXs can be fitted with feature phones so that the extension user can bypass the operator. PABXs and key systems may also be combined by "piggy backing" the key system onto the PABX, creating a system within a system. In this way, departments where telephone traffic is intense could respond faster to calls.

Whatever system a company buys, it will almost inevitably have an array of extra features and facilities, some more useful than others. These include abbreviated dialling, call diversion, conference facilities, last number re-dial, call barring, ca-back dialling, intrude and, the least popular, music on hold. Users, however, appear less concerned with features as they are with reliability, according to a report from Systems Dynamics, telecommunications consultants.

With the convergence of voice and data technologies there is a trend towards PBXs that can handle both traffic. However, although these switches have been developed by major companies as IBM and the UK's ICL they have been slow to catch on.

Looking to the future, with the advent of the Integrated Digital Service Network in the early 1990s – a telephone network that will carry voice and data traffic simultaneously – Systems Dynamics predicts that the telephone will ultimately be replaced by the combined VDU and telephone.

PBXs capable of meeting the demands of switching voice and data will become indispensable. But they are expensive to develop; development costs of over $100 are not uncommon. This will lead – indeed has led – to a number of mergers and alliances such as GEC/Plessey, Siemens/GTE and Alcatel/ITT.

Jon Moggridge

Telecommunications in the European Community

	1984	1985
Telephone sets connected to the public network ('000)	160,290	167,715
Number of main lines ('000)	108,411	113,805
Total staff in telecommunications services ('000)	940	938
Total income from the telephone service (ECU million)	48,162	53,127
Total income from all Telecommunications Services (ECU million)	54,459	62,558
Total annual gross investment in Telecommunications excluding land and buildings (ECU million)	15,672 (1)	17,037 (4)
Annual gross investments in telephone switching equipment (ECU million)	3,075 (2)	3,100 (5)
Telephone main lines per 100 habitants (% average)	33.7%	35.3%
Telephone stations (sets) of all kinds per 100 habitants (% average)	49.9%	52.1%
Telecommunications investments excluding land and buildings as a share of total gross fixed capital formation (% average)	2.7% (3)	2.7% (3)

Source: International Telecommunications Union (ITU), 1987

Growth in electronic messaging

ELECTRONIC communication systems, based on value-added network services – such as electronic messaging which includes electronic mail (E-mail) or electronic data interchange (EDI) – are now entering a rapid growth phase in Europe.

While the UK's Telecom Gold service, for example, had just over 200 'mailboxes' in 1982, the figure rose to 2,800 in 1983, then 7,000 in 1984. By 1986 it had reached 53,000 and today has soared to 120,000.

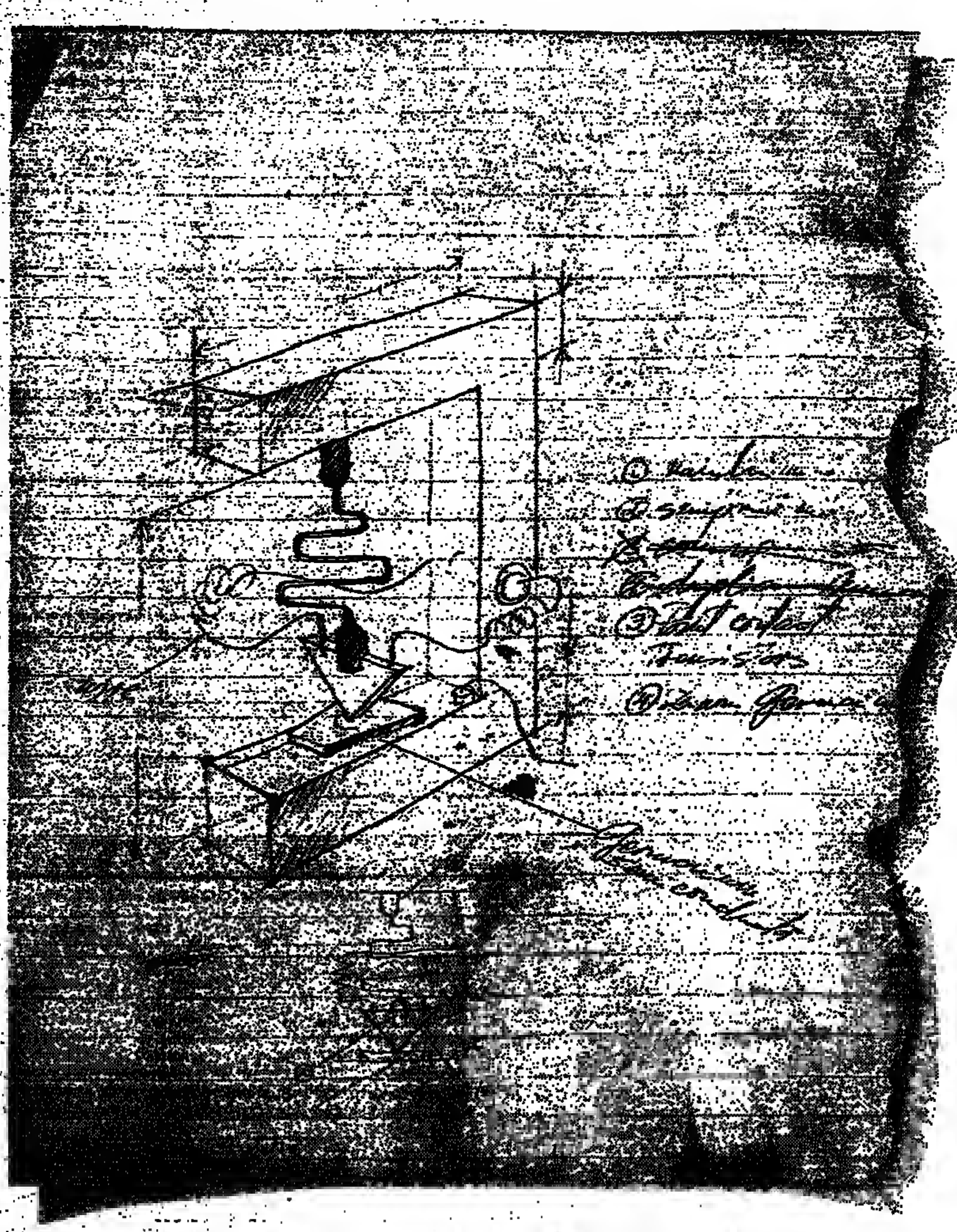
Some analysts predict that by 1995, data transmission traffic will exceed voice traffic – "If these predictions come true, then we will see many more opportunities open up over the next five years," comments Mr John Clement-Jones, group director of Dialcom Europe.

Electronic messaging is a portmanteau phrase which includes E-mail, EDI and message-handling services (MHS). They allow users to send a batch of messages or single on-line transactions.

Mr John Clement-Jones, group director, Dialcom Europe.

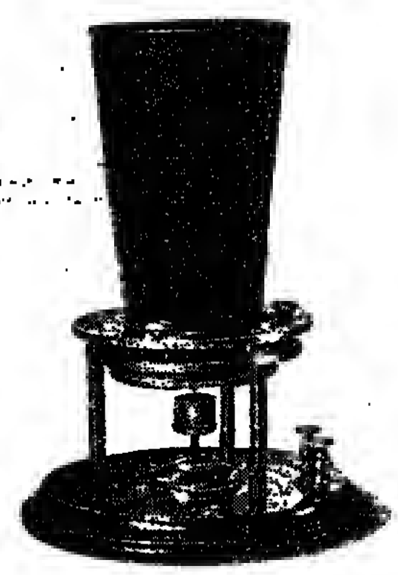
EDI is a packaged business solution for transmitting business documents, electronically. For example, companies use the system to integrate their supply systems and distribution chains.

"It's advantages are numerous, since it is cheaper and quicker than manual or physical methods of transmission of business documents. It avoids re-keying of important information, such as invoices or receipts," says Mr Clement-Jones, who adds that electronic messaging scores heavily over paper-based systems because it integrates with electronic data storage.

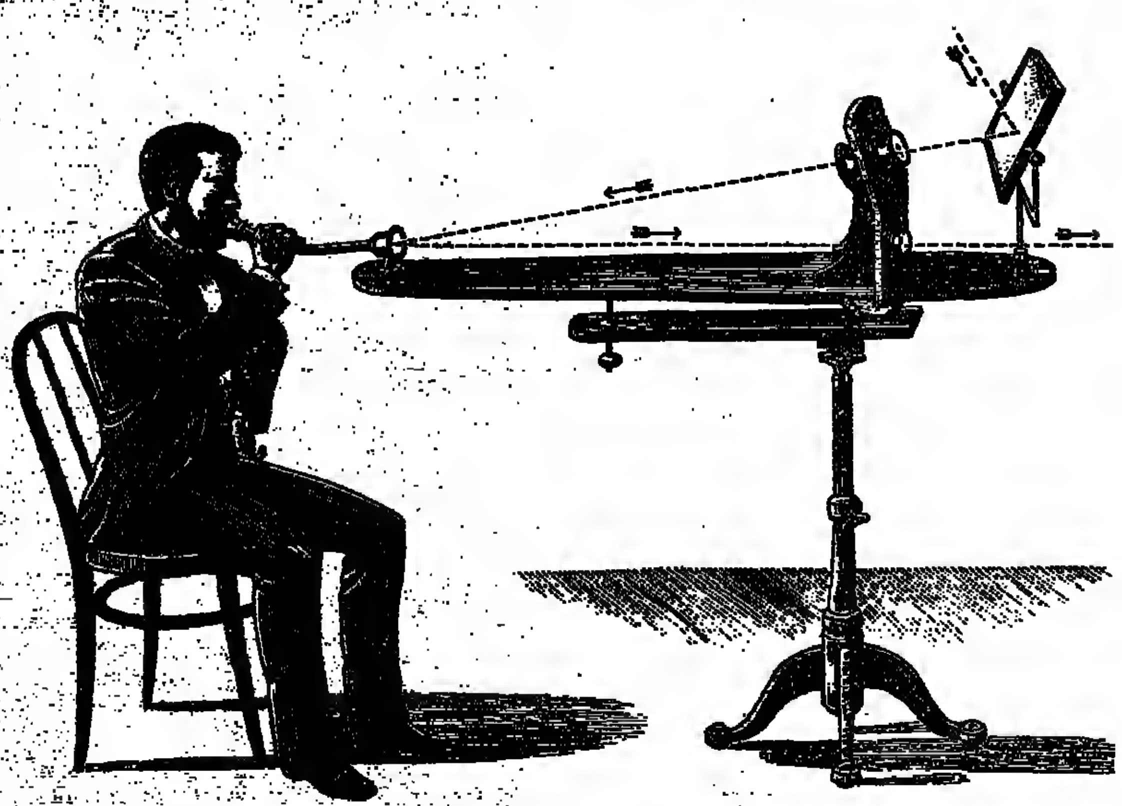


THE DISCOVERY OF THE TRANSISTOR EFFECT AT AT&T BELL LABORATORIES IN 1947 CHANGED THE COURSE OF HISTORY. SUDDENLY MINIATURISATION WAS POSSIBLE AND THE AGE OF ELECTRONICS HAD BEGUN. IN THIS FIRST TRANSISTOR THE CONTACTS WERE MADE OF GOLD AND THE SEMICONDUCTOR WAS GERMANIUM.

SCIENTISTS AT AT&T BELL LABORATORIES INVENTED THE FIRST ELECTRICAL DIGITAL COMPUTER IN 1939. ALMOST 50 YEARS LATER, THE 6386 MICROCOMPUTER IS ABLE TO SUPPORT AS MANY AS 32 USERS SIMULTANEOUSLY. A CONTEMPORARY COMPUTER INDUSTRY BREAKTHROUGH.



MARCH 10TH, 1876. ALEXANDER GRAHAM BELL UTTERS THE FIRST ARTICULATE SENTENCE EVER TRANSMITTED OVER HIS NEW INVENTION, THE LIQUID PHONE. "MR. WATSON, COME HERE. I WANT YOU." AND THUS THE FIRST AT&T PATENT IS EARNED.



THE PRECURSOR OF FIBRE OPTICS FIRST SAW THE LIGHT IN 1880 WHEN ALEXANDER GRAHAM BELL WROTE OF HIS EXPERIMENTS WITH THE "PHOTOPHONE": "I HAVE HEARD A RAY OF THE SUN LAUGH, COUGH AND SING."

"Mr. Watson, come here," were the words that announced the invention of the telephone way back in 1876.

Unknowingly, they were also the words that announced the birth of an organisation that would ultimately be known as AT&T.

A few years and thousands of telephone poles later, the people of Los Angeles were able to talk directly to the people of Boston. The nascent AT&T was on the move.

In April 1927, a handful of New Yorkers glimpsed the future. AT&T Bell Laboratories, now the inheritors of Alexander Graham Bell's inventor's mantle, had developed a way to carry the first television image over telephone lines.

Then, a few years later, in 1939, the world's first electrical digital computer emerged from the same laboratory.

1947 saw a major breakthrough with three of our scientists inventing the transistor.

At the same time of course, they had no idea that this was the beginning of the microelectronics revolution. Each was later awarded the Nobel Prize.

In 1956, AT&T and its partners laid the first transatlantic telephone cable, enabling the people of Britain to talk to the people of America.

The world's first satellite TV transmission was made possible in 1962 thanks to AT&T's Telstar satellite.

And one of the first stations to receive Telstar's messages was built at Goonhilly that same year.

The Unix® operating system was developed by AT&T in 1969 and has subsequently become an international computer operating standard.

The story continues in a similar vein until today. In fact, AT&T have earned a patent every working day for more than 60 years, most of which have contributed to improving the world's communication.

Communication is the heart of AT&T's business. And technology is our lifeblood. We see our job as connecting people to people, machines to machines, systems to systems, unhindered by geographic and technical barriers.

Today, AT&T has co-operative ventures with over 100 nations. We've been working with British Telecom, and its predecessors, for over 60 years.

Right now, the new transatlantic fibre optics cable is nearing completion, a result of an even stronger partnership between AT&T and the UK.

We're providing jobs at our switch development and transmission manufacturing plant in Malmesbury and our microelectronics design centre at Bracknell.

We intend to invest more in Britain, to serve our customers better.

If you'd like to know more about AT&T in Britain, please write to AT&T, Information Office, Norfolk House, 31 St. James's Square, London SW1 4JR.

AT&T

We invented the phone back in 1876, and we've been ringing the patent office ever since.

Developments in West Germany

Reforms firmly on track

WHEN MR HELMUT KOHL, the West German Chancellor, opened the annual industrial fair in Hannover last month, he went out of his way to reassure his business audience that the long-awaited reform of the telecommunications and postal services of the Bundespost was still firmly on track.

The following day Mr Otto Lambsdorff, the economic spokesman of the parliamentary grouping of the Free Democrats, also underlined the central political importance of Bundespost reform.

The Christian-Democrat dominated coalition Government, and its supporters, thus seem to be positively encouraging the already widespread view that Bundespost reform is the acid test for the Government's entire economic reform package (tax, pensions, health insurance), due to be squeezed into the next 18 months.

This could be a dangerous game. If the coalition managers have miscalculated and Bundespost reform is blocked or severely watered-down in Parliament, it will now be a major political humiliation.

But what are the chances of such a reverse? Mr Kohl's remarks in Hannover were by way of response to speculation in the West German press over the preceding few weeks that the Christian-Democrat led state governments were preparing to veto the reforms.

There is no doubt that they have the power to do so through the second chamber of Parliament, the Bundesrat. And there is equally no doubt that the Social Democrat-run state governments will continue their opposition to reform, arguing that it will cause a deterioration of services for ordinary users and increase unemployment.

However, their objections will only become effective with support from some recalcitrant Christian-Democrat led state governments. The current indications are that some CDU states – while supporting the general principles of reform – are indeed prepared to press their objections to the point of voting down the plans.

This is partly a matter of power politics. Under the reorganisation proposals the state governments would have far less of a say in the management of the Bundespost, and few organisations willingly concede power. Although giving in to the states on this issue may seem a technicality it could, in the longer run, slow down the substance of the reforms, too.

The second strand of objection reflects precisely the kind of interest group politics which the reforms are supposed to cut through. And, once again, it is Mr Franz-Josef and his unpredictable Bavarian Christian Social Union – coalition partners with the CDU – who are in the vanguard. Their objections have not yet been spelt out, and may be token, but it is widely assumed that on this – as on so many other industrial issues – the Bavarian Government is simply the mouthpiece of its local businesses.

In this particular case it means Siemens, easily the biggest supplier to the Bundespost. As one part of the reform promises to ease the process of licensing new equipment to attach to the network, the relationship between Siemens and the Bundespost may be undermined.

In fact, for public consumption anyway, Siemens claims not to be worried about increased competition. It also points out that while it is true that the Bundespost has in the past stuck with a small number of key suppliers, this has been more because of operational simplicity than economic chauvinism – the second main supplier, SEL, has, after all, been controlled outside Germany for many years.

The market has probably been a little more open than supposed, at least in the recent past, but it should certainly become a lot more open in the future. There is even talk of the contracts for the second phase of digitilisation going predominantly to non-German companies. That should not harm Siemens too much, indeed it has arguably suffered in the past from an over-protected home market. And if the Americans, who have long complained about hidden protectionism, are placated it might actually help Siemens in the increasingly important US market.

What about the other changes? Having fluffed reform in the 1970s and seen the US, UK and Japan shoot ahead with de-regulation – producing vastly expanded choice and generally lower prices for business users – West Germany began its own slow build up to limited de-regulation in the mid-1980s.

Last year the Witte commission recommended a series of reforms most of which Mr Christian Schwarz-Schilling, the posts minister, is now trying to implement. The proposals disappointed many free-marketeers because they fell short of recommending privatisation or even competition on the main telephone network.

They did, however, recommend splitting the postal from the telecommunications services and turning the latter into a far more customer-oriented business organisation. The commission also supported the opening up of "value added" services to free competition, with the Bundespost as the main competitor.

The difficulty with the former proposal is that the Bundespost – with its 500,000 employees – is a giant organisation with deeply ingrained habits and which is simply not capable of rapid change. There is clearly an intriguing battle going on in its upper reaches between reformers and conservatives, but even if the reformers win it may take years for the effect to trickle down.

And the problem with the opening up to competition of all but the most basic service is that the rules on Bundespost cross-subsidisation are extremely unclear. No sensible business is going to commit capital to competing against such a giant until it is confident that it has at least a chance of making some money.

Notwithstanding these difficulties, and the political dangers, the momentum for reform is probably unstoppable. The government does seem to have realised that a sophisticated infrastructure of communication technology is as important for most modern business as roads or energy supplies, and that location decisions will be based partly on the quality of that infrastructure.

The momentum for reform is probably unstoppable.

Some of the new openness is being forced from outside either by the EC or the US. But domestic service businesses, especially financial service businesses, are starting to realise that, whereas in the past all their main competitors suffered from the same high tariffs so there was no competitive advantage to be lost, after 1992 it will be very different. The lower costs of, say, a UK insurance company selling a policy over the telephone to a German, compared with the other way round, has concentrated minds considerably. Tariffs should actually start to come down this year.

But in Germany business does not automatically get what it decides it wants, and there is no real business party. However, Mr Kohl is nothing if not a canny politician and if he has put his credibility on the line over limited Bundespost reform then it seems almost certain that he knows he can get it.

David Goodhart

West German Expansion

• Telecommunications product sector growth (in US $m)

West Germany	1986	Forecast 1990	Forecast 1995	Forecast percentage growth 1986-90	Forecast percentage growth 1991-95
Subscriber local end apparatus	1,059	1,490	1,608	40.6	7.8
Subscriber distribution	1,236	1,252	1,470	1.3	17.4
Transmission bearers	1,413	2,013	2,184	42.5	8.5
Switching	1,766	1,944	1,943	10.1	-0.0
Telex equipment	94.8	228.2	320.4	139.8	41.6
Data communications	317.3	757.3	1,072	138.6	41.6

Imports by W. Germany

• Imports of telecommunications equipment by West Germany, (US$ '000)

	1986	Jan–August 1987
Transmission equipment	107,575	79,887
Switching equipment	313,014	199,532
Cable	144,379	94,677
Telephone sets	27,959	19,517
Parts of telephonic apparatus	55,295	47,553
Telegraphic apparatus	75,513	25,022
Parts of telegraphic apparatus	22,772	18,064

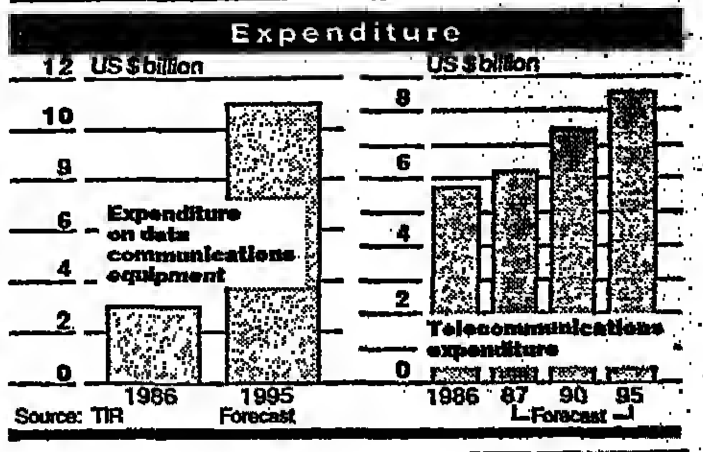
• Imports of transmission equipment by West Germany from leading suppliers (US $000)

	1986	Jan–August 1987
Austria	4,023	3,150
Belgium-Luxembourg	32,702	23,474
France	10,264	5,610
Italy	5,465	5,590
Japan	6,616	4,759
Switzerland	9,826	6,236
UK	7,965	2,571
USA	16,885	13,433

West German exports

• Exports of telecommunications equipment (US$ '000)

	1986	Jan–August 1987
Transmission equipment	309,020	206,783
Switching equipment	626,262	461,072
Cable	214,878	125,296
Telephone sets	44,415	27,714
Parts of telephonic apparatus	264,897	186,460
Telegraphic apparatus	175,245	119,587
Parts of telegraphic apparatus	88,926	55,318



France

A frenzy of alliances

Expansion in France

• Telecommunications product sector growth, figures in US$m

	1986	Forecast 1990	Forecast 1995	Forecast per cent growth 1986-1990	Forecast per cent growth 1991-1995
Subscriber local end apparatus	627.5	1,065	1,237	69.8	16.1
Subscriber distribution	851.6	998.1	1,074	17.2	7.6
Transmission bearers	1,165	1,749	1,781	50.1	1.8
Switching	1,434	1,854	1,618	29.3	−12.7
Telex equipment	92.8	113.3	250.2	22.2	120.7
Data communications	310.6	379.5	837.7	22.2	120.7

Source: TIR

Imports to France

• Total imports of telecommunications equipment by France by product sector, in FFr '000s.

	1986	1987
Transmission equipment	171,511	243,910
Switching equipment	146,605	147,543
Telephone sets	35,787	63,189
Telegraphic apparatus	133,397	252,209
Parts	214,917	292,237

• Imports of telecommunications equipment by France from leading suppliers

	1986	1987
UK	42,020	69,395
West Germany	67,408	100,983
Italy	90,021	111,621
Japan	82,661	216,588
USA	145,776	160,762

Exports by France

• Total exports of telecommunications equipment by France by product sector, in FFr '000s.

	1986	1987
Transmission equipment	659,005	536,255
Switching equipment	621,590	542,426
Telephone sets	104,993	90,538
Telegraphic apparatus	399,061	434,095
Parts	1,560,353	1,713,574

• Total exports of telecommunications equipment to leading customers:

	1986	1987
UK	35,129	52,444
Belgium-Luxembourg	121,131	122,261
Netherlands	42,526	78,897
Italy	239,608	235,232
India	408,799	499,940
China	216,191	102,394
USA	204,555	143,450

THE FRENCH telecommunications authority, officially known by the bureaucratic mouthful of Direction Generale des Telecommunications (DGT), has now been renamed France Telecom. The new name, inspired by the DGT's opposite number in the UK, British Telecom, is an eloquent sign of the major changes taking place in the world of French telecommunications.

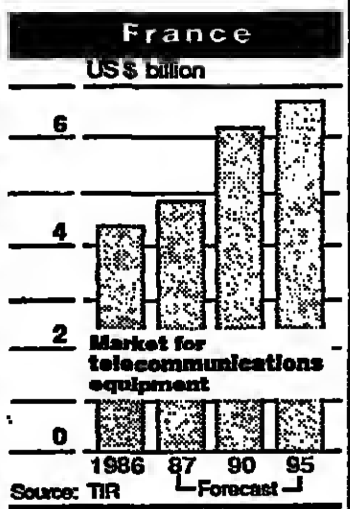
Not that France is about to privatise France Telecom. But the process of deregulatioo of French telecommunications has begun with the opening to competition of various sectors of the market including value added network services and car telephones.

Moreover, the French telecommunications industry itself has been caught np in a frenzy of alliances and mergers to help it achieve the international scale necessary to compete in an increasingly tough and open international environment, which is likely to become even tougher with the advent of the unified European market.

The gradnal liberalisation of the French telecommunications market was launched by Mr Gerard Longuet, the French Telecommunications Minister in the government of Mr Jacques Chirac. Mr Longuet's first move was to deregulate the French markets for value added telecommunications networks by allowing various associations between major telecommunications groups and financial partners to offer these new services. This was subsequently followed by the liberalisation of radiotelephone paging systems and the public market for car telephones.

One reason for choosing the radio car market as one of the first French telecommunications sectors to be deregulated was to try to boost competition and development of this growth business in which France has trailed its main European partners.

The French anthorities have now chosen a second operator to offer a national car telephone network in competition with France Telecom and Matra, the recently privatised defence and electronics group. The new operator involves a consortium led by



the Compagnie Generale des Eaux, the country's largest private water distribution group, in partnership with Alcatel, the telecommunications company controlled by France's Compagnie Generale d'Electricite (CGE), and Nokia of Finland.

The government has also accelerated the country's new cable television programme which is also open to competition. After a shaky start, the cable programme has now taken off with nearly 350,000 houses cabled by the end of last year, compared with only 60,000 at the end of the previous year.

By the end of this year, more than a million houses are expected to be cabled. The cable programme is seen as contributing major additional potential for telecommunications services as well as television programming. Cable is likely to encourage even further the already strong development of videotext and other interactive voice and data services in France.

France has long been at the forefront of new voice and data telecommunications technologies. Its minitel videotext service has continued to expand rapidly. More than 1.1madditional minitel terminals were delivered by France Telecom to telephone subscribers last year bringing the total number of minitels installed in France to 3,373,000, or 14 per cent of the country's telephone subscribers. France now hopes to export its minitel technology and system elsewhere in Europe as well as its electronic directory system.

Coupled with the significant evolntion of the French telecommunications aothority, which with annual sales of FFr 94.5bn, net profits of FFr 9bn last year and employing nearly 160,000 people, is itself one of the country's key industrial and technological institutions, France's telecommnnications equipment manufacturing sector has also been the scene of major change.

The most spectacular deal has undoubtedly been the merger of CGE'a telecommunications activities with those of ITT to form the world's second largest telecommunications venture after AT&T of the US. The recent venture, Alcatel NV controlled by the French CGE group, reported profits of FFr 2.4bn on sales of FFr 77.6bn for 1987, its first year of existence. CGE appears to have successfully integrated the various components of the merged telecommunications operations of the French group and those of ITT.

A series of other deals have also underlined the efforts of French telecommnnicatlona groups to try to boost their competitive position. Matra, which successfully bid with Ericsson of Sweden for control of CGCT, the French state telecommunications group, after a fierce takeover battle, recently acquired a 15 per cent stake in SAT, another French telecommunications group which has been seeking alliances.

On the other hand, the French Schneider group decided to sell its Jeumont-Schneider telecommunications business to Bosch of West Germany because Schneider felt that its telecommunications activities could not compete in the long term unless they were part of a much larger group.

Paul Betts

The Netherlands

Signs of vulnerability

ONE NIGHT last January much of the Netherlands' telephone system went on the blink. Lines jammed, emergency calls to police and hospitals could not be made in many places and panic nearly broke out.

Nearly a million television viewers were trying to call a popular programme at the same time – and the telephone circuits overloaded. Aside from the humour of an unexpectedly eager TV audience was the fright among people who desperately needed help. This vulnerability in the telecommunications infrastructure is only one of the serious problems facing the Netherlands as its post/telegraph/telephone (PTT) agency prepares for partial privatisation.

On January 1, 1989 the PTT will be spun off into a private company, whose shares will be held by the state, and which will compete with the private sector. Eventually, it may be floeted publicly like British Telecom. But much is still to be done and time is running out. Management and labour must be reorganised, prices and prodncts must be geared to a competitive market and the weak infrastructure must be strengthened.

"The delay is largely due to the 'rules-oriented' culture of the Dutch," Professor Jens Arnbak told a Dutch employers association. "The new legislation for the PTT is in many respects tha opposite of the deregulation sought by the cabinet." the netherlands now has the most tightly regulated telecommunications industry in the European Community, with the PTT wielding a monopoly over more products than in any other country.

Nevertheless, the Dutch have been in the vanguard of the push for liberalisation. Philips, the Dutch electronics giant, has long called for more free telecommunications markets; and Mrs Neelie Smit-Kroes, the Dutch Minister in charge of telecommunications, was recently the only supporter of European Commission moves to speedily ban national monopolies.

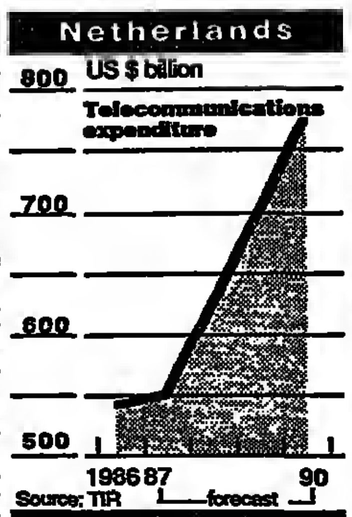
Parliamentary reluctance to let go of the popular telecommunications issue, however, is reflected in the limited freedom granted to the PTT compared with Britain's privatisation of British Telecom.

"The inclination to open up is not there," observes a consultant who has worked for the PTT. With 100,000 employees, the PTT is the largest employer in tha Netherlands so the task at hand is monumental. The whole culture must be changed from that of civil servant to competitive enterprise.

To be fair, the PTT began gearing up for its spin-off some years ago. It has opened jazzy shops, staged road shows and published a magazine to advertise telephones and other equipment. Contracts to exchange know-how have been signed with Mercury Communications of the UK and Nynex of the US.

But the move toward privatisation comes none too soon. Last month the European Commission decided to move swiftly to break national telecommnnication authorities' monopolies on equipment by 1990, two years ahead of the completion of the European single market.

Mrs Smit-Kroes was the only european community minister to support the move. Telecommunications services are to follow soon. When the Netherlands' PTT



agency is spun off into NV PTT Nederland at the beginning of next year, it will be split into two subsidiaries, one for postal services and the other for telecommunications.

The postal subsidiary will keep its monopoly on letter mail and telecommunications will keep its monopoly on the infrastructure. But PTT Telecommunications will lose its monopoly on equipment and services and have to compete with the private sector. Equipment such as telephones, PABX, private telephone exchange systems and mobile telephones,which are now provided only by the PTT, can then be supplied by private companies as well.

To prepare for this change both management and labour must be drastically reorganised. Until recently, however, only a few top managers had been appointed. In past weeks a spate of positions have been filled and the top job – director-general, has been given to Mr Anton Dek, formerly a Unilever man before joining the PTT who is considered a dynamic leader. But only a matter of months remain for these managers to absorb their portfolios before the launch date.

Tough bargaining with labour unions continues. Employees must give up their civil servant status and are demanding a guarantee of no forced lay-offs for five years in return. Such a guarantee, which is likely to be given, will not ease the job of creating a market-oriented enterprise.

Competitive pricing is another area of uncharted waters. It will be made more treacherous by the government's demand of at least Fl.1.5 bn in dividends a year after privatisation. The PTT is now replacing equipment rental agreements with lease and sale arrangements in an effort to get up-front revennes. But it will take time to see how mnch income is needed to cover costs.

In the beginning, PTT Telecommunications may face relatively little competition on prices because equipment suppliersmay balk at going up against a company that retains its monopoly on the infrastructure.

"Potential competitors don't expect an easy road," the consultant notes. But eventually competition is bound to arise. The Dutch telecommunications market amounts to about $650m a year and is forecast to expand to nearly $800m by 1990.

It is PTT Telecommunications' uneasy alliance of monopoly and free-enterprise functions which threatens the most problems. Within five years, these two functions are to be legally separated into distinct units to avoid cross-subsidisation. But in the meanwhile conflicts of interest seem possible.

"This arms-length relationship within ptt telecommunications will not be easy,"cautions the consultant. PTT Telecommunications will be obliged to provide telephone lines for everyone – for itself as equipment supplier and for competitors who do the same.

Companies such as Mercury Communications, the sole competitor of British Telecom, will thus be forbidden. Only under extenuating circumstances will other parties be permitted to lay their own communications networks.

Appeals can be made to a "disputes" committee and ultimately to the Ministry of Transport and Public Works, which is responsible for the PTT. But no watchdog agency will hve the kind of Odsbudman clout that Britain's Oftel has. Dutch consumers tend to be a docile and accepting lot while commercial enterprises that need reliable telecommunications, such as financial and transport comapnies, will be more demanding.

Potential conflicts of interest could be worsened by the shortage of telephone lines. Now it can take months to get telephone lines because demand has so far outpaced forecast supply and infrastructure investments have lagged. The shortage of telephone lines is confounded by problems in the new, digital public-switching systems being installed. Both domestic and international circuits are often artificially busy and services such as automatic redialing and programmable numbers often do not work.

In the Government's plan for the coming 25 years, the Hague recently stressed the importance of a modern communications infrastructure. A mix of computers and telecommunications will be essential to the Netherlands' continued role in world trade and European distribution.

After the current 10-year, Fl 7.5bn switching-system renewal is completed in 1995, the second phase of modernisation will begin. That will be an integrated services digital network (ISDN), which will allow more peripheral equipment to be connected at one spot. A video telephone, computer and telex, for example, could all be tied into one juncture.

By the turn of the century the third phase is to be in place. That is broad-band ISDN, which will add cable TV and high-definition TV to tha network. Professor Arnbak of the Technical University of Delft contends that MP's shonld give the PTT more maneuvering room when the final parliamentary debate is held in coming months.

Technological developoments are too rapid to anticipate every detail, he argues, and trying to plan for every development will stifle creativity. But he fears the worst – "politicians have chosen for independence of the PTT, but in practice it appears that they have great difficulty in giving up control. You only have to look at the guidelines of the Cabinet for pricing policy and the enormous dividends that must flow into the government coffers in coming years.

"If Parliament makes no real changes, then the PTT will remain with its hands and feet tied in coming years and the independence will be little indeed."

Laura Raun
Amsterdam

British Telecom meets new targets in service performance

Turning point for services

BRITISH TELECOM, the privatised operator which still casts a long shadow over Britain's liberalised telecommunications scene, looks set to make 1988 the year in which it claws back the public respect lost during the summer months of 1987. In a host of areas, from pricing to callboxes, a nimbler BT has shown signs of putting its lumbering performance of the past behind it.

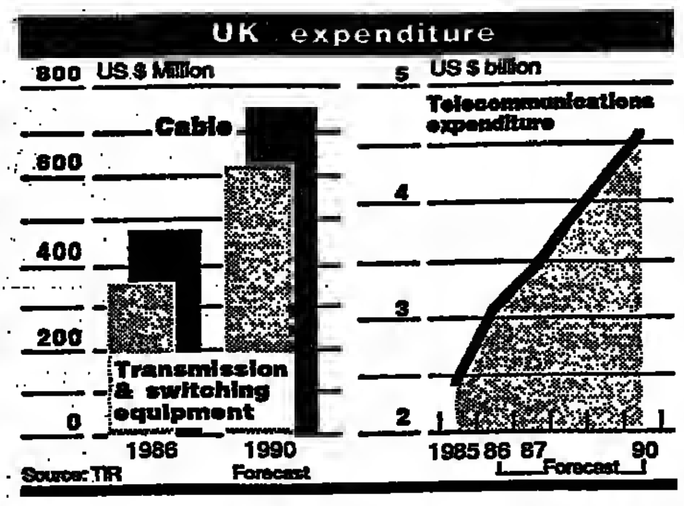
While BT was at last getting at least some of its act together, much of the industry was in suspended animation during the early part of 1988 as it awaited the outcome of two key developments: the inquiry by the Office of Telecommunications, the industry's regulatory body, into the future of the rules governing BT's pricing policies; and the merger, finally consummated in April after years of on-off courtship, of the equipment interests of the General Electric Company and Plessey, Britain's two biggest telecoms manufacturers.

Meanwhile, the fizz on the UK telecommunications scene was mainly emanating from one of its newer ingredients – cellular phones whose coming of age was marked by the spectacular decision by Racal to spin off its telecoms division, centred on its Vodafone cellular operator, at the end of last month.

After the criticisms it received last year, BT has clearly decided to make 1988 the year when it turns the quality of service corner – a goal of some interest to the Government, which under the terms of the privatisation prospectus is now free to sell its remaining 49.8 per cent stake.

The company has already passed an initial test by meeting the first of the performance targets it set itself in the autumn: as it entered April, 90 per cent of its callboxes were working at any one time, according to a joint Oftel-BT survey. This was no mean achievement since availability had hovered between 72 and 77 per cent in the previous months. Significant extra resources plus a thorough review of maintenance procedures were behind this turnaround.

If the callbox improvement was the first tangible benefit won by Britain's telephone users from the outcry over service quality last year, another is in the pipeline. BT has bowed to Oftel pressure by agreeing to compensate customers for delays in repairing faults and installing lines from next April. The standard penalty will be £5 a day, although business and residential customers can claim up to £5,000 and £1,000 respectively if they can prove loss resulting from BT delays.



BT also launched initiatives on other fronts to regain the confidence of its customers. One was a new £70m fibre optic network in the City of London, unveiled in January, designed to improve the speed, quality and reliability of calls over private circuits. Another was the extension of the price freeze on its main services to the end of March 1989: by then its main charges will not have changed for nearly two-and-a-half years.

Meanwhile, Mercury Communications, BT's network rival, opened the year relatively quietly. It has continued to add to the list of European countries which have agreed to exchange public telecoms traffic with it – a key objective as it seeks to build up its lucrative international business: the Netherlands has joined Italy and Denmark in the Mercury fold. It is also keen this year to sign up more small business and residential customers, to complement the heavy telecom business users which were its initial target.

The fledgling operator showed it had lost none of its marketing flair by revealing in March that it would offer many of its business customers compensation for failing to meet agreed dates for the installation of new services, neatly anticipating BT's similar announcement, later that month. But Mercury believes its expansion plans are being hindered by the terms governing its interconnection with BT: it has formally asked Oftel to review the agreement.

Professor Bryan Carsberg, Oftel director general, was already deeply engaged in the review of the rules determining BT's price changes, the first major re-think of the framework governing one of Britain's newly privatised utilities. He was bombarded with advice on the key questions: which services should have their prices controlled? What figure should control BT's prices? Should individual services be controlled? Should the present five-year period of the formula change? Consumer bodies were particularly vociferous in demanding tougher price constraints for BT.

Further planks have been nailed in place in the almost non-stop endeavour of building a liberalised telecommunications environment for the UK. In February, Lord Young, Trade and Industry Secretary, announced that up to six more operators would be licensed to run specialised satellite communications services involving transmission from a single source to a number of subscribers. An Oftel ruling in March cleared the way for PanAmSat, a US company, to offer the first private transatlantic telecommunications satellite services in direct competition with the publicly controlled Intelsat satellite communications consortium.

Prof Carsberg has also eased the rules governing the introduction of business telecoms equipment by ruling that standards governing equipment on private networks will in future be voluntary: however, Oftel disappointed the burgeoning independent UK telecoms sector by turning down proposals for similar liberalisation of equipment directly attached to the public network.

The emergence of the newly-named-company, GPT, out of the merger of GEC's and Plessey's telecoms businesses is the most important event in Britain's telecommunications equipment industry this decade. Long considered vital to give Britain a company which could match the scale of resources available to its American, Japanese and Continental competitors, the merger appeared destined to be thwarted by the notorious bad feeling between the top levels of the two companies.

GPT's new management team, headed by Mr Richard Reynolds, formerly managing director of GEC's telecoms operations, moved quickly to put the strains of the past behind it. Good progress was registered in sorting out nitty-gritty sides of the business such as GPT's engineering and information technology infrastructure. However, the most important questions remain unanswered, particularly how much extra manufacturing efficiency GPT can squeeze out of its merged operations and whether it can capitalise on its bigger scale to win more markets overseas.

It is vital for GPT to build up its overseas business, not least because competition is bound to become even fiercer in its home base: Thorn Ericsson, which supplies a rival public exchange to BT, for instance, now looks set to take a larger slice of that key market.

Success overseas will also be a key criterion for judging the progress of the alliance between STC and Northern Telecom, the Canadian equipment giant. This was considerably strengthened in February when STC took over Northern's UK telecommunications business.

STC has put its faith on technological advances which are making it possible for functions traditionally in the domain of the central exchange to be carried out in a more decentralised fashion.

David Thomas

Belgium

The stakes are high

LIKE MANY of its European counterparts, the traditional structure of the Belgian telecommunications industry is starting to undergo radical changes.

But the stakes are especially high for this small and hitherto tightly-regulated market. For one thing, Belgium is under great pressure to defend its networks against the threat posed by large neighbouring telecommunications operators in West Germany and France. The fear is that they could cream off a big share of Belgian value added traffic – like telex and fax transmission – in the free-for-all likely to follow the sweeping deregulation that the European Commission is planning for the provision of telecommunications services across the Community.

For another, Belgium's main suppliers of equipment – as opposed to services – are preparing to face tough new competition as a consequence of the liberalisation of terminal equipment which the EC has already decided to carry out and which is set to be transformed into Belgian law over the next 18 months.

This means an inevitable end to the privileges enjoyed by the two company monopoly which has traditionally supplied Belgium's telecommunications equipment and networks: Antwerp-based Bell Telephone and Atea, the local offshoot of the joint venture between Siemens of West Germany and GTE of the US. Already, potential competitors are sharpening their weapons in the fight for market share that deregulation will provoke.

Belgium's postal and telecommunications ministry is moving well up to speed, by comparison with its EC neighbours, in its plans to introduce free competition to equipment purchasing. Draft legislation now in the pipeline would allow subscribers to buy the whole range of terminal equipment wherever they like, rather than from the RTT and its nominated suppliers, by the end of 1989. That is a year ahead of the deadline for free competition for terminal equipment set in the EC's programme.

The draft law, the result of an independent "wise men's" report commissioned by Mrs Paula D'Hondt, Belgium's PTT Minister, has been delayed by the absence since last December of a Government. But all major political parties have accepted it as an urgent priority in their negotiations for the formation of a new coalition and the industry accepts it as inevitable.

A mark of the excitement in store came with the PTT's decision to liberalise last December the supply of mobile telephones, until then supplied only by Siemens. The RTT estimated that the number of users of mobile telephones might climb to 5,000 by 1990 as a result. Astonishingly, it already stands at 7,000.

"Everybody is scrambling to get equipment out in time for liberalisation," says Mr Marc De Block, managing director of the Belgian arm of AT&T and Philips Telecommunications (APT), which is set to be a prime beneficiary of deregulation.

The draft legislation would deregulate the market for radio-pagers by January 1989, followed by subscribers' first telex terminals and low speed modems in the middle of that year. First, telephones and high speed modems, as used for data transmission, are due to be opened to free competition by the end of 1989.

The ministry is however, cautious over the extent to which it is prepared to liberalise services, a view supported by the wise men's report. It recommends that the Regie Des Telephones et Telegraphes (RTT) should be turned into an independent but state-owned company, and keep a monopoly control over the basic telephone network and over "essential" Value Added Networks, (VANs). The approach is similar to, and influenced by, recent telecommunications legislation in the neighbouring Netherlands, seen as the most liberal regime in the EC after Britain. It is also in line with the European Commission's own acceptance that national PTTs should keep their traditional control over basic networks.

Belgian telecommunications authorities want to avoid running into what they see as the main problem flowing from liberalisation in the UK, where private subscribers in remote and unprofitable areas have paid much higher tariffs since deregulation than lucrative business subscribers making large numbers of international calls.

"As a Government, we have a duty to protect ths small subscriber," says one of Mrs D'Hondt's advisers. They also want to avoid a situation where private networks compete with the RTT to cream off the most lucrative VAN business. "If we go for the complete liberalisation of VANs, we run the risk of bypass networks emerging and we cannot afford the effect this would have on the basic infrastructure," said Mrs D'Hondt in a recent interview.

In its present position under the Ministry, the RTT is deeply influenced by the stultifying political and regional wrangles in which Belgium is so often embroiled. Indeed, the RTT had to go through many months of contorted negotiations to balance Flemish and French speaking regional interest before it could finalise last August a Bfr 41bn (£624m) contract for the provision of new digital exchanges, associated equipment end research over the next five years. The wise men's report – and the Ministry itself – has every sympathy with that view.

Belgium is under great pressure to defend its networks against large neighbouring telecom operators in West Germany and France

However, the wise men's report does set strict limits on just how much autonomy the RTT would get – and it falls a long way short of full privatisation. It accepts that private investors could eventually participate in the regie in a second stage of liberalisation, but that state ownership should not in any event fall below 51 per cent.

It also calls for the establishment of a separate independent body to monitor the RTT's behaviour control type approval, currently the RTT's preserve. This organisation, to be called the NAT standards and authorisation instititute, would also issue license for private companies to provide value added services on leased lines and exercise a certain amount of control over tariffs.

Final details of how the system would work – and crucially the exact conditions for competing private services – have yet to be decided after further talks between the PTT, users and the telecommunications industry.

Further ahead, another big challenge facing the Belgian telecommunications industry is how to co-ordinate the introduction of broad band communications, the provision of voice, data, video and text on one optical fibre channel, expected to become a reality some time in the next decade.

This is an extremely sensitive issue for a country in which 95 per cent of homes are already plugged into cable television, among the highest penetration in Europe. Clearly, broad band communications will make the present coaxial cable television networks redundant, an understandably sensitive issue for Belgium's 40 cable television distribution companies.

So far, they have been unable to make up their minds whether to co-operate with the RTT or fight it on questions like who should have the right to channel television programmes through the broad band networks of the future, and how these services should be financed.

"They are afraid that if they do co-operate, they might be digging their own grave," says one government official. To add to the uncertainty, the cable television operators are deeply divided within themselves, along the Flemish-French linguistic lines that touch almost every aspect of Belgian life.

The cable operators have at any rate refused to participate in a five-year technical feasability study into broad band, which started earlier this year, because the ministry refused to guarantee them full television distribution rights in the broad band networks of the future. The study includes Bell, Atea, ACEC, Siemens and the AT&T-Philips combine. The budget is Bfr 3.3bn, of which the RTT is providing 80 per cent.

An experimental broad band system should be working in Belgium by early 1990, believes the Ministry. In the meantime, the RTT is to set up a pilot integrated digital services network – which uses existing telephone lines rather than optical fibres – with 775 business subscribers by the end of this year.

"The television companies will have to come to an understanding over what their role is to be some time," says APT's Mr De Block.

Williams Dawkins,
Brussels

Telefonica of Spain

Record profits

MR LUIS SOLANA, the energetic 52-year-old chairman of Telefonica, says that Spain's National Telephone company is facing "two to three years of opportunity." Forging deals in the Soviet Union and Argentina, cementing alliances with US giants and creating new ones in Europe, Mr Solana is certainly acting according to his dictum.

Mr Solana is also obtaining results. Thirty two per cent publicly owned and listed in New York, London and Tokyo as well as Frankfurt, Paris and Madrid, Telefonica posted profits of Ptas 53.2hn ($480m) last year on a turnover of Ptas 568.8bn ($5.1bn) and generated a cash flow of Ptas 268.5bn ($2.4bn).

It was the company's best ever performance until this year. Mr Solana is confident that 1988 will show an even greater improvement and he has set aside Ptas 330hn ($3bn) for investment in Telefonica's growth.

This year's investmant programme is a 32 per cent increase over the 1987 allocation and it is more than, for example, what the Spanish defence and public works ministries will be spending. Every pesseta that Mr Solana has allocated will be needed. The investment programmes recently have been in a constant process of upward revision for Telefonica is battling to keep up with the demand of Spain's booming domestic market.

In the past two years, the level of use of telephones in Spain has been growing by seven per cent against an average increase over the previous 15 years of between 1-2 per cent. At peak business hours the lines between Madrid and Barcelona are currently congested to the point of collapse.

Historically, Telefonica has been installing 500,000 lines a year but the figure will be 1m this year and 1.4m in 1989 when there is likely to be another 30 per cent hike in the investment allocation. With only 36 telephones per 100 Spaniards the domestic market will be good business for the foreseeable future.

Politically, it would be well for Telefonica to stay at home and mind its own shop. It used to take some three months to obtain a telepbone in Madrid, but the wait is now at least double that and there have been reports of company employees receiving illegal payments for a faster service.

Mr Solana is, however, determined to take Telefonica abroad and he is certain that if he does not act now, companies from deregulated Britain and the US will have the new markets to themselves. Very soon, he believes, the Germans and the French will be following the same path and the competition will becoms intense.

The disgruntled Spanish consumer has therefore little option other than to keep waiting while Telefonica embarks on recently approved projects such as overhanling Argentina's telecommunications system and huilding telephones and craating rural lines in the Soviet Union.

Both initiatives reflect Telefonica's belief that it has an edge on competitors because Spain has a natural empathy with societies in the throes of modernisation, having just experienced that process itself. Spain stands at a good middle level for it has assimilated high tech very quickly and is in a position to translate it now for others.

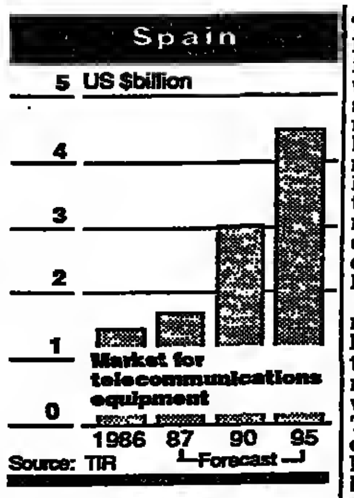
"I can understand the problems of Argentina and the Soviet Union better than say the Germans," says Mr Solana. "Other Europeans don't pay attention to rural telephones but in Spain we have the same number of *pueblos* as the rest of the EC put together."

The Soviet venture involves tbe manufacture of sets called tarsis that have been developed hy Telefonica. Initial investment is a modest $3m for s 49 per cent equity in the joint company, but it is expected to grow sharply.

In Argentina, Telefonica will be heading an international consortium that will take a 40 per cent stake in a new telecommunications company which will replace Entel, the existing public-owned company. The project is provisionally budgeted at $500-700m and the Spanish company itself will be investing some $100m for an eventual shareholding of around 15 per cent.

Telefonica's involvement in Argentina is its first executive move into a foreign telecommunications system and Mr Solana stresses that it is a "new concept" which could be applied elsewhere. "We are not going as investors or lenders, but as managers of the investment."

In this sense, the only competition is at present provided by British and U.S. Corporations for Telefonica is an operating company whereas Siemens, for example, is just a seller. When approaching Latin American markets with a view to revamp and privatise, Mr Solana argues that the Spanish company is "less suspicious."



The managerial strategy of the Argentina deal underpins Mr Solana's belief that it is vital for Telefonica, as for any telecommunications company, to expand its position as a network operator in order to carry weight in the decision making that will shape future telecommunications technology.

The Spanish company is meanwhile fast consolidating its technological base. This year at Microelectronica de Espana, a joint venture with the US giant in which Telefonica has a 20 per cent equity, began producing chips at its semi-conductor plant outside Madrid.

A second venture, with the California-based electronic data systems and named telecommunications data services, aims to design and distribnte transmission networks based on Telefonica's own domestically-developed packet switching system, called Tesys.

On the European front, Telefonica's latest initiative has been an exchange of shareholdings with Telettra, the Fiat gronp's telecommunications subsidiary.

The pooled resources of the ninth ranking telepbone company in the world and the eighth-ranked manufacturer of transmissions and radio bridging equipment is the kind of deal that Mr Solana, for one, views as a perfect marriage of convenience. It gives Telefonica an even sounder platform from which to make the most of its opportunities in what remains of the decade.

Tom Burns
Madrid

Italy

A crucial year

THIS is a crucial year for the Italian telecommunications industry, which is about to undergo a far-reaching reorganisation aimed at rationalising manufacturing and services at home and enabling Italy to be more competitive in the wider European market. Italy is one of the least 'saturated' national markets in Europe and therefore of significant interest to foreign companies wishing to gain a foothold.

The Italians have already lost mnch precious time. Between late 1985 and the end of last year talks went forward on plans to merge the state-owned Italtel with Fiat's Telettra subsidiary. The plan, which was aimed at the creation of a joint company known as Telit, would have brought together Italtel, the biggest telecoms equipment maker and leading producer of public switching systems, with the Fiat data transmission subsidiary.

The idea was eminently sensible in that it would have created a company with combined revenues of around US dollars 1.6 bn, a company which then would have reached the 'critical mass' needed to team up with a foreign company and compete on the difficult global market.

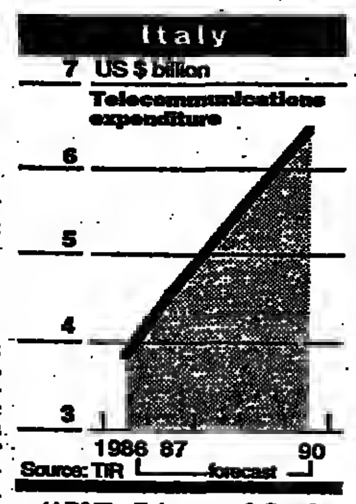
Unfortunately, the Telit venture ended in a bitter controversy when Fiat pulled out last November alleging political interference. For the last six months therefore, the Italians have been scrambling to come np with alternative strategies. The state and private companies have gone their separate ways, each seeking a foreign ally.

While Italtel and Telettra pursue their separate strategies a major restructuring of the state-owned STET telecommunications holding group is underway. The plan is to transform STET into an operating company that brings together the SIP national telephone service, Italtel, plus the satellite and international carrier units.

To do this, the IRI group, which controls STET, has put forward plans to create what in Italy has been dubbed 'Super-STET.' Professor Romano Prodi, the chairman of IRI, says his goal is to create "an Italian version of British Telecom." A key element of the new Super-STET would be an alliance with a foreign telecoms manufacturer; such a link would be first and foremost with Italtel.

For foreign companies tha attraction of a link with Italtel is to be found in the state company's dominant position in public switching and its access to orders from SIP. Last year, SIP accounted for 76 per cent of Italtel's revennes of Lire 1,471 bn (US$1.2 bn). For Italtel the attraction of a foreign partner is to be found in its desire to market internationally the Linea UT public switching system that currently represents 28 per cent of total turnover.

At present, there are four potential foreign suitors for Italtel's hand: Alcatel of France, American Telephone & Telegraph (AT&T), Ericsson of Sweden and Siemens of West Germany. The offers from Alcatel, Ericsson and Siemens are already on the table, while negotiations with AT&T are still going forward.



The AT&T proposal would also include a role for Olivetti, in which the U.S. telecommunications giant has a 22 per cent equity stake.

IRI and STET have promised to make a final decision before this summer.

In the private sector, Fiat's Telettra has considerably strengthened its position in the Spanish market and is meanwhile talking to possible foreign partners about a Europe-wide alliance. It is thought likely that Telettra will wait to see who Italtel teams up with before making its own final decision. Thus, it is at least conceivable that the failed marriage between Italtel and Telettra could be revived in a back-door manner, if the two Italian companies were to end up forging ties abroad with the same partner. This might be an ironic development, but it could also have a certain logic.

Italian telecoms equipment-makers are thus preparing to regroup themselves and executives of both the state and private companies are convinced that there is little time to lose. If there are no further delays then the coming months could well be decisive for Italy's aspirations in the international telecoms market.

Alan Friedman,
Milan

The Nordic region

Joint ventures

WHEN a prominent Swedish politician mentioned in a newspaper interview several years ago that he had bought an inexpensive mobile telephone receiver in the US, he was promptly fined for importing an illegal product into Sweden.

His crime was that the US receiver had not been approved by the Swedish Telecommunications Administration, Televerket, which wss selling its own higher-priced mobile telephones.

Swedish telecom bargain hunters can rest easy now. Televerket's near monopoly grip over the Swedish telecom market is about to be eased.

The government proposed in March a series of measures which the Communication Minister, Sven Hulterstroem claims will make "the Swedish telemarket one of the most open in the world."

Televerket's monopoly over the supply of pay telephones and private branch exchanges (PABXs) will be abolished by 1989 and 1990 respectively, removing the last barriers to a completely liberalised telecom equipment market. This follows the elimination of Televerket's monopoly of high-speed modems in March.

Televerket's responsibility for setting equipment standards will be transferred to a new agency, the National Telecom Committee.

Events in Sweden mirror telecommunication deregulation in the rest of the Nordic region. With its dozens of private telephone companies, Finland long ago established a regional precedent for a competitive telecom equipment market. Denmark and Norway have recently followed suit, although questions still linger concerning the status of private VANs and other telecom services.

The arrival of telecom liberalisation, however, is not expected to cause major changes in market conditions in the short term. In Sweden, for example, an estimated 85 per cent of major companies and 60 per cent of medium-sized ones are already equipped with advanced digital PABXs supplied hy Televerket. Foreign interest in the Swedish PABX market will thus concentrate on small firms, 60 per cent of which use outdated analog exchanges.

Televerket believes it can retain more than half of the annnal Skr 2.5bn PABX market for hardware, software and services after deregulation. In a preparatory move, Televerket and Ericsson signed last year an agreement to strengthen their decade-old R and D, production and marketing co-operation on PABXs in the face of foreign competition.

The deal gave Televerket sole rights to the Swedish market for PABXs jointly developed by Teli, its development and production company, and Ericsson, which in return received international sales rights. The agreement also called for continued joint development, with an emphasis on smaller office PABXs.

The deregulation of telecom services posed a greater problem to the national telecom agencies in the Nordic region. Although Norwegian subscribers pay some of the highest rates in Europe, customers in Denmark and Sweden enjoy among the lowest charges on the Continent. The challenge for the latter telecom authorities is to continue to offer cheap rates and maintain their efficient but expensive networks despite competition in the profitable areas of long-distance and international services.

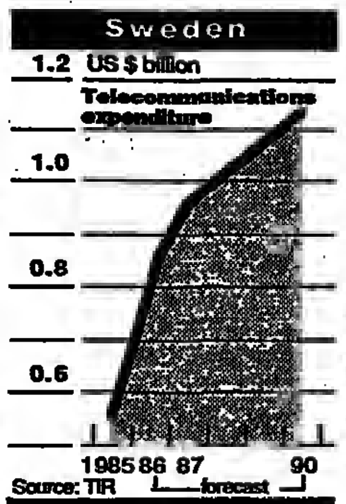
Signs of competition have already emerged. Comvik Skyport, a subsidiary of the Swedish conglomerate Kinnevik, expects state approval this summer to begin the international transmission of data and voice services via satellite.

In response, the telecommunications administrations in all five Nordic countries last August established a Stockholm-based company, Scandinavian Telecommunications Services AB, to provide a complete package of international data, voice, text and picture transmissions for Scandinavian companies.

STS has already signed agreements for exchange traffic with Hong Kong, Singapore and Canada, and is conducting negotiations with other countries where Nordic multinationals have strong interests, such as the US, Japan and Australia.

For the Nordic telecom industry, the price of increased market competition at home is small compared to the benefits they are likely to reap from telecom deregulation in the rest of the world.

Ericsson has been able to shift its emphasis from the faltering



Third World market to industrialised countries as a result of market liberalisation in the US and Western Europe.

The break up of AT&T into the Baby Bells has given Ericsson the opportunity to become the third main supplier of public switching systems in the US.

In France, Ericsson last May acquired access to 16 per cent of the public exchange market through its purchase of a minority stake in CGCT, which was sold off by the state.

Ericsson is collaborating with several other firms for the development of a standardised pan-European cellular mobile telephone system in the 1990s. It has concluded separate deals in this area with France's Matra and the UK's Orbitel, the latter a joint venture between Racal Electronics and Plessey. Ericsson also has a more limited R and D co-operation agreement with West Germany's Siemens.

But Ericsson's dominance in the global cellular systems market, where it claims a 45 per cent share, is now being challenged by Nokia, the Finnish conglomerate.

Nokia, through its Nokia-Mobira subsidiary, is already one of the world's three top producers of mobile telephone handsets. The Finnish firm signalled its growing interest in the cellular systems market last year when it teamed up with Alcatel and West Germany's AEG to bid for the pan-European system.

John Burton
Stockholm

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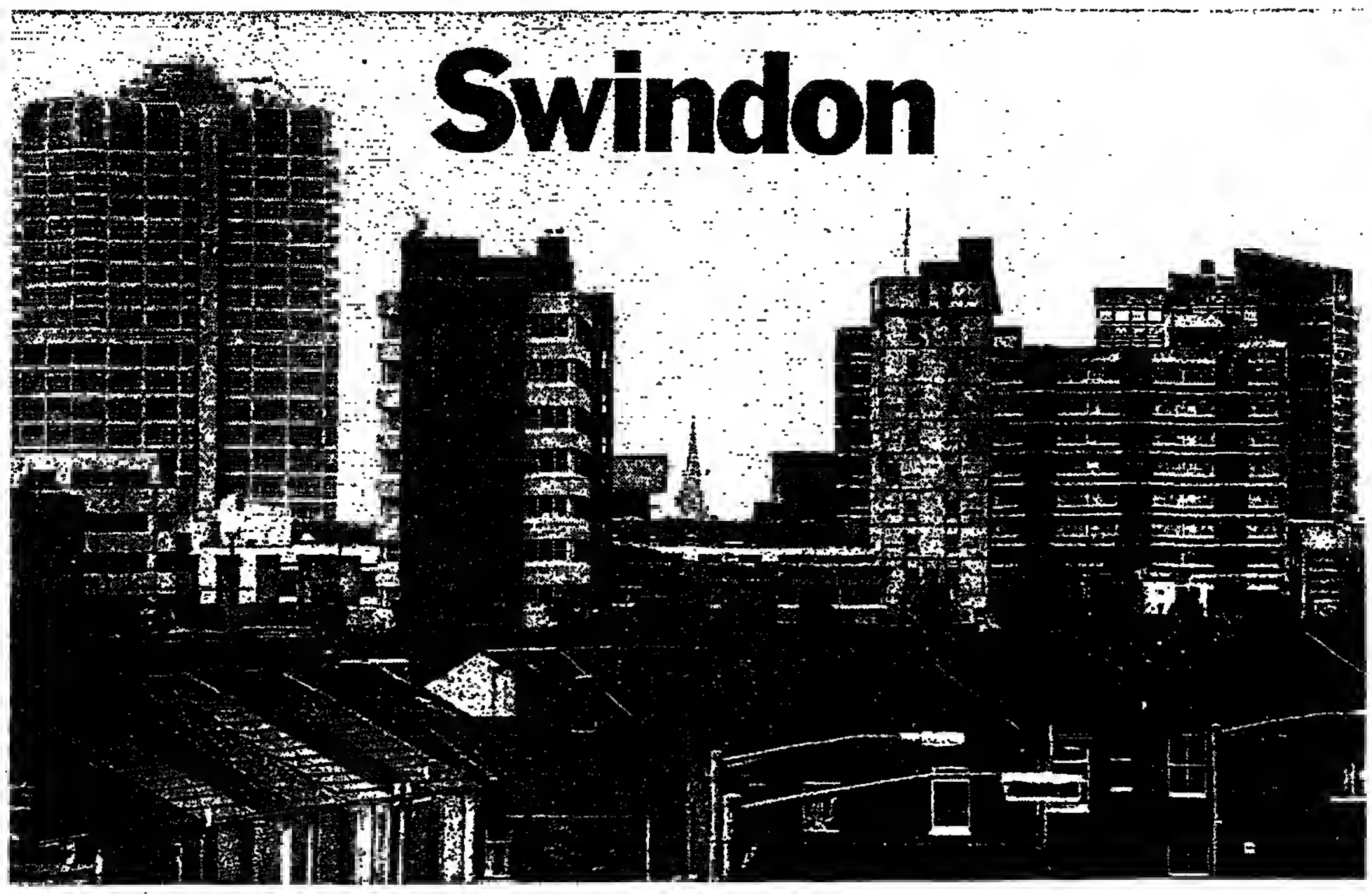
SECTION IV

FINANCIAL TIMES SURVEY

The magnetism of the former sleepy railway town as an industrial and commercial centre is a rare phenomenon, writes **Roy Hodson**. With considerable redevelopment planned, it has few competitors in Europe, and by the turn of the century its size will have doubled in 50 years.

Swindon



CONTENTS

☐ *Picture: Tony Andrews*

A home for Euro-strivers

"WHAT IS special about Swindon?" I asked, after inspecting *the first ten of its 30 glittering* industrial and business estates, where glass buildings shimmer in the sun and a conventional building looks like a period piece.

The best reply came from a Yorkshireman who now helps to promote Swindon's agile growth. "We tend to get the intelligent bits of organisations," he said.

Perhaps he had hit upon the core factor of Swindon's amazing development from a sleepy old railway town in the 1950s to its present status as a growth point for the best of industry, and its promise as the home of businesses striving to be prominent in the European economy.

A typical Swindon-type business is Hanimax, part of an international group. Since it arrived in the town in the early 1970s, the group has steadily developed its British trade in what used to be called photography but is now something grander called "imaging technology". UK sales have grown by 26 per cent and profits have more than doubled in the first half of this year. It finds its business-park premises on Swindon's outskirts a near-ideal base for its activities in Britain.

Some enthusiasts for what is *happening in Swindon claim that* theirs is the fastest-growing town in Europe. That is hard to prove. It is not straining the truth, however, to say that the magnetic attraction of Swindon as an industrial and commercial centre is a rare phenomenon. Within Europe its competitors are few and far between.

More than 50,000 people have moved into the area since the early 1960s, attracted by well-paid jobs in Swindon. The population, slightly under 100,000 in the days when Swindon was an undistinguished little railway town, has now reached 168,000, and is certain to go on growing fast as new housing and industry spreads across the land still available in and around Swindon's boundaries. By the the year 2000 the population is likely to be nearly 200,000. The town will have doubled in size in 50 years.

By then Swindon will be the hub of a travel-to-work area of well over 300,000 people. Its role will be that of an important national centre for at least four modern industries. They are micro-electronics and semiconductors, motor-cars, financial services, and distribution services in the *broadest* sense, including electronic and physical distributive activities.

All this will be in addition to a sound base of manufacturing and service industry that has been developing since the 1960s.

The town which, in *the lifetime* of many *of* its people, used to depend almost wholly npon 13,000 jobs in the British Rail engineering works has come a long way . . . and clearly has a long way to go yet.

Swindon's success owes much to geography, coupled with such factors as the availability of large tracts of land for development, and a general willingness to embrace change.

With London less than an hour away by the fastest 125 Inter-City trains, the M4 London-Wales motorway just a few minntes drive from the centre of town, and good road links with the Midlands and the south coast, Swindon is in a strategic position. But it scores most heavily by its easy access to Heathrow. Time and again industrialists told me that it was the combination of Heathrow and reasonably-priced industrial premises and housing that made them plump for Swindon.

It used *to be a compact place* dominated by a small "Nob Hill" called Old Town, where elegant houses and a Georgian shopping street remind one of the days when it was a true country town. That, of course, was before it was *chosen by Isambard Kingdom* Brunel as a vital link in his Great Western Railway. He extended Swindon with a workaday town centred on the railway station and the railway workshops.

Now the workshops have gone, and *Old Town is about to be* improved by a £17m scheme to give it new commercial drive while keeping the character of the district.

Meanwhile, down the hill in the new town, the closure of the railway workshops has run its course and made room for new enterprises. Tarmac is starting on a massive scheme to redevelop a large area of the old workshops land and buildings to create a new centre of excellence for Swindon, including hotel, leisure, and heritage facilities.

The town is fortunate to have a pedestrian shopping centre dating from the early years of the concept – one example of foresight by a Swindoo borough council in times *gone* by. It is to be improved in radical fashion over the next three years by a series of schemes led by a £50m development of the Norwich Union on a site at present used as a car park.

A second scheme is being led by Sun Alliance to redevelop a part of the town centre called the Parade at a cost of £20m. A public competition to rename it indicated a certain nostalgia for the great days of steam. Swindonians *decided to call it Platform One.*

Until last year, some speculative office developments in central Swindon were looking for tenants. No longer. The town is now short of office space and many new office blocks are planned on central *land being* used at present for car parks. The financial services company Allied Dunbar, which spotted the attractions of Swindon as a centre in 1971, now employs more than 2,000 in six office blocks.

The town is heavily dependent on private developers to help it match amenities to tha fast growth of industry and commerce. The ruling Labour council of the local authority, Thamesdown Borongh, is at present rate-capped by the *Government*, but not for the usual reason of being a profligate council in an old and poor community. In Thamesdown's case the situation is quite the reverse. The council is being penalised for trying to keep *pace with Swindon's headl*ong economic growth.

The town is growing at a rate well beyond the top parameter of any government projections. The council's rate-capped limit at present is some £14m – a combi*nation of local rates and govern*ment grant. In fact, the council needs to spend £6m more than that in the next financial year to keep up with the demands of a relentlessly-expanding commnnity.

Both the borough council and Wiltshire County Council accept that they can only forge ahead with new housing and industrial developments, together with the necessary improvements to Swindon's town centre, if they can tap private-sector money. The two authorities are doing that in quite a spirited way by securing from developers what is known in the trade as "planning gain". The idea is that the developer stumps up mooey for the new infrastructure made necessary by his creation of offices, factories and housing estates.

So far the system has worked well in Swindon and the surrounding district as developers have readily conceded that they have a *responsibility beyond* filling greeo fields with houses and high-tech blocks. But Mr Nicholas Ridley, Secretary of State for the Environment, has shown disapproval of "planning gain" deals recently, and Swindon may have *to make more sophisticated* arrangements with developers.

Swindon has managed to attract the cream of modern industry and commerce without the status of new town or development corporation. But with the *closure of the railway workshops*, 2,300 people had to be relocated, and it was clear that a special body was needed to deal with the problem.

The Swindon Development Agency was set np with £1,250,000 of British Rail money, and its director, Mr Norman Hayes, was instructed to spend it wisely and well. The agency has proved a powerful catalyst in Swindon's recent development.

It has played a big part in dispelling fears that the final closure of the workshops would cause a break in Swindon's eco*nomic progress. The opposite has* happened. The towo is attracting more new companies than ever before. Their arrival is smoothed by Mr Hayes and fellow professionals, and the agency works in conjunction with the borough council's own development arm called Swindon Enterprise.

Nine out of 10 of the workshop employees have new jobs. Their skills have been welcomed by the diverse mixture of companies that now makes up the Swindon *industrial scene.*

Future development is remarkably well-charted, even to the year 2000. First there will be a massive expansion to the north of the town – subject to the expected favourable outcome of a recent *public inquiry*. Led by Crest Homes, the Haydon project will infill the whole northern sector with bricks and mortar and house another 30,000, together with business parks.

Slightly to the east of that site *is the old South Marston airfield*, where Honda has set up shop with a test track, an inspection plant, and now a new engine manufacturing plant. With more than 300 acres at its disposal, Honda may well choose the site *for its first integrated European* car plant.

Moving clockwise from Honda round the Swindon periphery there is another site between the town and the M4 motorway, the Coate Water Park. Although this *part of Swindon is not allocated* for growth, a group of developers has big plans for it to be a super business park for companies needing very large floor areas of np to 600,000sq ft in low-rise office buildings.

Surveyors Bernard Thorpe and Partners have told the county council that there is a crying need for such premises. In a confidential list, they have named no fewer than 22 companies (mostly based at present in London and the Thames Valley and with no room to expand) that are queuing up for, altogether, 5,500,000sq ft of offices of the style that Coate Water Park could provide.

Industry: an exciting pattern is emerging, with four main strands

Success prompts a quest for skills

SWINDON'S UNUSUALLY fast growth is throwing off new industrial and residential development around its outskirts with all the vigour of sparks from a Catherine-wheel.

Whereas just a few years ago the mix of industry was a glorious confusion – simply put, the town was prospering because it was a place where companies wanted to be – now an industrial pattern is emerging. It has four strands.

There is a healthy mix of conventional industry, iocluding a nnmber of modern plants and company headquarters. Burmah Oil Trading has its headquarters there. One-fifth of Europe's polypropylene food wrappings are made there by Courtaulds Films.

Swindon is also an important centre for the semi-conductor industry and, with it, a hroad range of high-tech and computer-linked activity in hoth hardware and software.

Third, the town has become a communications centre in the broadest sense. It is being chosen as an excellent base for both electronic and physical communications. The Galileo computer centre, now being built, will handle worldwide bookings for British Airways, and a number of other airlines, by satellite link with a compnter complex covering six acres of floor space. British Telecom is building a headquarters in Swindon for its Materials Executive. *Employing* 1,100 people in four new office blocks, this will purchase and distribute everything British Telecom oeeds, from satellite earth stations to screwdrivers.

W.H.Smith, the retailer and bookseller, was one of the first big companies to move into Swindon (1967) and now employs more than 2,000 people at its retail headquarters and Book Clnh Associates. The Bible Society moved from London to make Swindoo its headquarters for worldwide distribution.

Finally, Swindon seems to be heading towards a *much bigger* role in the motor industry, although nothing is definite and much will depend upon the intentions of the tight-lipped newcomer, Honda. The town has the long-established Rover car body plant. Honda is running its current British activities from the old South Marston airfield site (with enough room there for a major car plant to be built), and Renault and MAN Volkswagen both *have big distribution facilities*.

There are now 30 industrial estates radiating oot from the hub of Swindon around the old railways site; and several more oew mixed developments of industry, commerce, and housing are being built, are on the drawing board, or are being fought for through the planning processes.

Courtaulds is one of the Swindon manufacturing pioneers. The first factory was *established* in 1963. The site is now in its fourth big expansion programme, and a total investment of £50m will consolidate it as the biggest producer of polypropylene film in Britain.

Mr Geoffrey Labram, manufacturing director, says that, although skills shortages are appearing in Swindon, his company has not had any problems recruiting staff so fär. "We pay well above the market average."

But he, like many other Swindon employers, is having to recruit nationally for people with special skills, soch as process control techniques, and systems engineering. He adds that his company finds it relatively easy to attract people to the Swindon area, because of the quality of life in *the Wiltshire countryside*. His plant is already operating the widest, fastest machine in the world for making the film, and the new machine now being installed will, he promises, be *even wider and faster*.

The town is being chosen as an excellent base *for both electronic and physical communications*

Mr Labram can export more than two-thirds of his Swindon production to Europe and North America, in spite of the strong pound. "We are simply more efficient and better equipped here than the US competition," he says. "But Europe is a more difficult market. All our competitors are investing, as we are, for the single market from 1992."

In a glass cube of an office –cum–*laboratory*, set amid lawns (a pleasant feature of so moch Swindon business life), Intergraph is setting a fast pace even by Swindoo growth standards. The hrain child of an American inventor Jim Meadlock, Intergraph began devising and selling "Cadcam" – computer-aided design and manufacturing – from an attic in Reading in 1980. The company has been growing at a steady 40 per cent a year for several years, and is now taking new premises in Swindoo to supplement its present building which holds 150 people.

Mr Geoff Hall, Intergraph's deputy managing director, says the company move to Swindon from Reading took place smoothly. The new building had been put up "oo spec" in Swin*don and they were able to move* into it without delay. Almost all the staff were prepared to move with their jobs. A number kept their old homes in Berkshire or Wiltshire and now commute to Swindon. He likes the choice of new premises for further expansion in Swindon and, even more important, likes the atmosphere of the town – "It is an environment conducive to growth".

Another company, Gordon Russell, has swum against the torrent of high-tech activity flowing into Swindon by creating in the town a soccessful traditional manufacturing activity – furniture making – during the last seven years. With *a work force of* 300 in Swindon, Mr Chris Coombs, the managing director, is well satisfied with the choice of site near the centre of the town.

He has been able to take on and re-train in modern furniture-making methods many of the excellent craftsmen who were made redundant when the British Rail Engineering workshops closed. He shrugs off competition for labour, premises and services from his high-tech industrial neighbours: "We turned over £25m last year."

Next year he intends to offer some young employees the style of industrial life remembered hy their fathers,by reintroducing old-style three-year apprenticeships in modern furniture-making techniques.

Plessey Semiconducters is the oldest Swindon-based company in a specialised business which has become very important to the town's ecoaomy, and which has helped Swindoo gain an international name. While Plessey is the only company in the town actually making semicooductors it has been joined by Intel, National Semiconductors, Marconi, and others comprising, together, a virile *semiconductors sector in* the town.

Intel has a design and operations centre. National Semiconductor does design and distribution. Swindon Silicon Systems is a spin-off company from this family of activities specialising in micro-chips design. Marconi Microsystems makes microelectronics assemblies in the town using "chips".

In a closely-related activity *demonstrating the synergy generated* by the micro-chips business, Stralfors Data Prodncts has just invested over £1m in a floppy-disk duplicatioo centre in Swindoo to produce more than 6m diskettes a year. It is offering a 24-hour service on duplicatioo in real emergencies and will store clients' master programmes securely.

Mr Jeff Salter, of Plessey, points out that his company is a founder member of the "chips" club. It still uses the original Swindoo *building in which* it helped pioneer British production of micro-chips in the post-war years. Now Swindon, employing 1,200, is the Plessey headquarters for its three semiconducters manufacturing and marketing plants. Plessey is concentrating on the manufacture of applications specific integrated circuits (ASIC), and is one of the world's top ten in that special field with more than $200m a year international sales.

The ASIC market currently generates mnch better profits than commodity chips, and Plessey is finding ready sales among the commnnications industry, radar maonfacturers, satellite televisioo equipment makers, and televisioo cable equipment makers. It also sopplies the "chip", incidentally, for the Whistling Key Ring.

One of the more remarkable features of tha semiconducters industry is that it actually regards human workers as a hazard. They generate hair and skin particles which contaminate the clean environment needed to make and service reliable microchips. So the labour force in semiconductors in Swindon is unlikely to rise dramatically as automated production is further developed. However, it will continue to be one of Swindon's most valuable earners.

Roy Hodson

BASIC FACTS

Local authority: Thamesdown Borough Council, Civic Offices, Euclid Street, Swindon SN1 2JH

Swindon Enterprise (the borough's promotion arm): Level 5, DMJ Tower, Canal Walk, Swindon SN1 1LH

Swindon Enterprise Trust: 54 Victoria Road, Swindon SN1 3AY

Swindon Development Agency: Emlyn Square, Swindon SN1 5BJ

Swindon Co-operative Development Agency: 3 Harding Street, Swindon SN1 5BZ

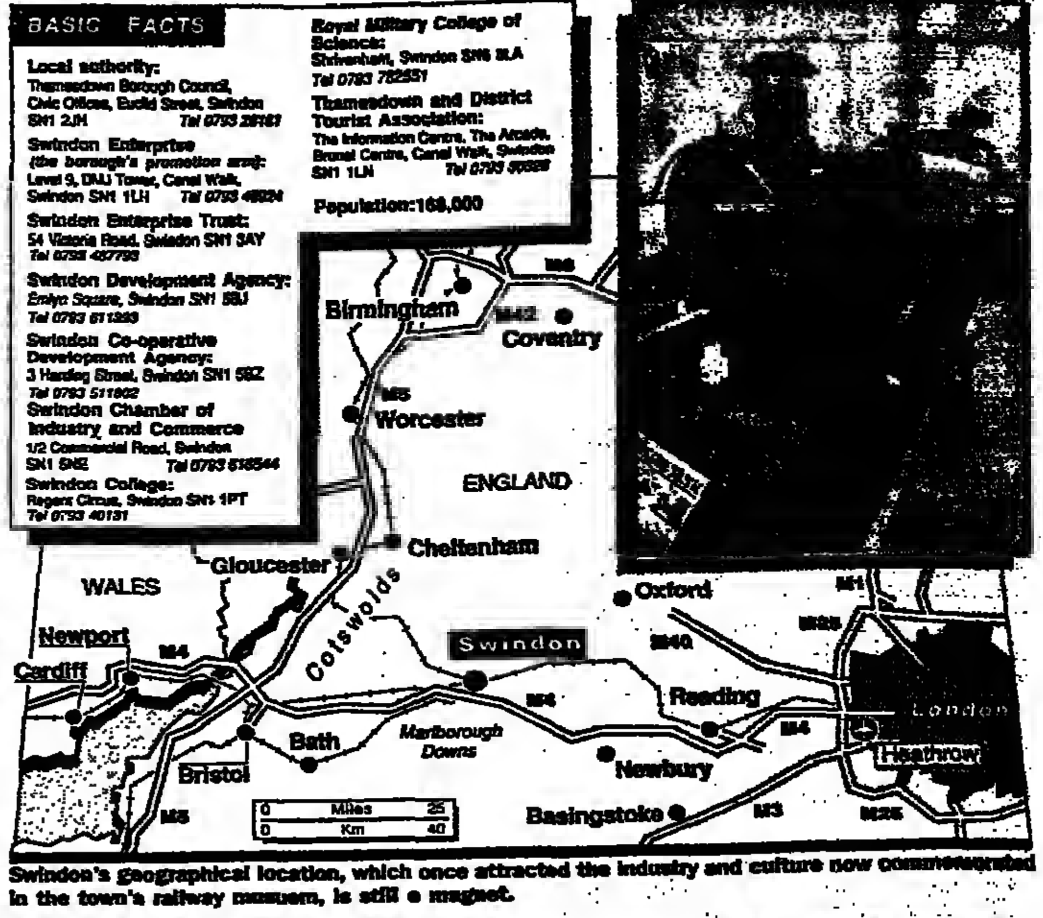
Swindon Chamber of Industry and Commerce: 1/2 Commercial Road, Swindon SN1 5NZ

Swindon College: Regent Circus, Swindon SN1 1PT

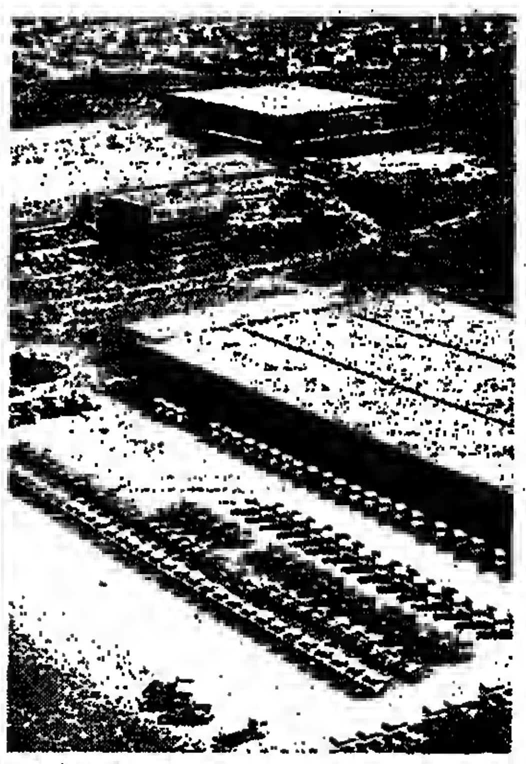
Royal Military College of Science: Shrivenham, Swindon SN6 8LA Tel 0793 782551

Thamesdown and District Tourist Association: The Information Centre, The Arcade, Brunel Centre, Canal Walk, Swindon SN1 1LN

Population: 169,000



Swindon's geographical location, which once attracted the industry and culture now commemorated in the town's railway museum, is still a magnet.



A die sinker at Austin Rover's Swindon plant; and the MAN-VW distribution centre beside the M4

The motor industry

A brush with danger

IN A town that has once before seen its main economic prop pulled away hy forces beyond local control, it is understandable that some *recent* motor *industry* developments should have caused anxiety.

The two main events concern Austin Rover and Honda. And they provide a reminder that there are risks, as well as opportunities, inherent in the industry's high-spending presence; though, this time, the consequences of decisions affecting the two seem unlikely to have an adverse effect on Swindon.

Yet, so complex has decision-making become in the motor industry as a result of its evolution into a global matrix of joint ventures and collaboration, that it is easy to envisage circumstances *in* which the outcome could have been less favourable.

Jaguar's decision, after many years, to source its car bodies from elsewhere than at Austin Rover's Swindon plant, and the unforeseeable consequences of the planned British Aerospace takeover of Rover itself, is likely to reinforce local determination never again to drift towards being a one-industry town.

The Jaguar decision to set up a joint venture with GKN, to establish a body pressings plant at Telford in Shropshire, is undoubtedly a hlow for Swindon. Despite the development authorities' success in attracting a broad spread of sophisticsted companies, embodying all facets of hi-tech, Austin Rover's pressing plant (set up originally hy Pressed Steel Fisher) remains the area's largest single employer.

It has a workforce of 3,000 at Stratton St Margaret, and is engaged in body pressings, body and tool design and die manufacture. Jaguar has accounted for between 10 and 15 per cent of its output, which includes also the main pressings for Austin Rover's product range and some body panels for Saab, the Swedish car maker.

Had the Jaguar business been withdrawn overnight, job losses at the plant would have been inescapable. As it is, Jaguar and GKN expect to take three years to build their Telford plant, during which time Swindon will continue to supply Jaguar with 50,000-plus bodies a year.

The hope of Austin Rover's management is that, during this period, demand for its own cars will increase sufficiently to compensate. There are grounds for optimism.

Austin Rover produced 467,600 cars and light vans last year without creating stockpiles – sales totalled 471,500 units. Its long-declining UK market share appears to be stabilising at around 15 per cent, *while exports* are continuing to climb quite sharply (up about 17 per cent in the first quarter compared with a year ago).

Mr Graham Day, Rover's tough Canadian chairman, has banned company executives from making sales or ootput forecasts, hut it seems reasonable to expect output of around half-a-million units in the coming year, given that the UK new-car market once appears set to break the 2m barrier for the second year in a row.

But the three years do contain uncertainties. Although most analysts consider it unlikely, there is no guarantee that there will not be a market downturn by the end of the decade. And Austin Rover's future is heavily tied up with the success or otherwise of its R8 new car range, developed jointly with Honda and replacing the Maestro and Rover 200 next year, and the Metro-replacing R6 due a year later.

Partly for these reasons, a more fundamental issue, of who should acquire Rover Group in the privatisation process, has been a subject for particularly close scrutiny at Swindon.

This is not just because of its implications for the Stratton St Margaret plant, hot also its potential impact on the intentions of Honda. As a result of the collaboration, Honda is moving rapidly towards completion of a 70,000-units-a-year engine plant, to complement other facilities on its nearby 324-acre site, the former Long Marston airfield.

The initial reaction has been one of relief that, barring some last-minute bid which would infuriate government ministers, Rover is not to be sold to a rival motor company. A consequence of a rival motor company "solution" would be rationalisation of various aspects of production, with body pressings a potential area for savings. The Swindon plant could have been a beneficiary – equally, it could have wound up as a loser.

Of no less concern, however, were the implications of a such a solution for Honda's future in the town. Would tripartite collaboration with Rover and a third-party rescuer (Honda having itself refused to take an equity stake) still be on the cards? Would Honda simply meet its basic obligations under current contracts, then look for partners elsewhere in Europe?

Or, with potentially profound consequences for the area, would it plnnge ahead with the full-scale car manufacturing plant at Swindon, which some industry observers believe is its long-term intention in any case?

When, as a courtesy measure, Industry Secretary Lord Young told Honda in Tokyo of the intended sale to British Aerospace, Honda made clear both its welcome for that deal and its hostility to Rover's being acquired by another car maker. With the BAe deal appearing almost a *fait accompli*, Honda appears on course for a stable relationship with its UK partner until the start of the 1990s at least.

Engine production, due to start next spring, will create another 150 jobs at the Swindon plant, bringing the total to nearly 300. Inevitably, the addition of the engine plant to the test and final preparation facilities for Honda Ballades, and Legends built for Honda by Austin Rover, has led to speculation that indigenous component suppliers risk being trampled in a rush of incoming Japanese component makers keen to set up shop in Swindon.

While development officials naturally keep negotiations with potential incomers confidential, there is little sign of this happening. On the contrary, both Austin Rover and Honda say UK suppliers introduced to Honda by Rover are proving both willing and able to meet notoriously high Japanese quality standards.

Honda and Rover group, however, are not the only motor industry interests in town: Swindoo's location beside the M4, within easy striking distance of the M25 ring, Heathrow airport and other key communications links, and its go-getting enterprise culture (despite lack of regional grants) have attracted both Renault and MAN-VW, the West German commercial vehicles group, to choose it as their national vehicle distribution headquarters.

They are beginning to form a culture of their own: in mid-April the four companies, plus representatives from engineering group BICC-Citec, held their first meeting under the title of the Thamesdown Motor Industry Forum. The idea is that if Swindon really is to develop as a motor industry centre, it should have an organised lobby.

John Griffiths

Roy Hodson on the growth of financial and commercial services

The professionals' arrival will change the skyline

SWINDON CANNOT yet claim to be an established regional financial and commercial centre. But all the signs are that it is heading *fast in that direction.*

Mr Michael Scott, of the London firm of lawyers Charles Russell Williams & James, which has opened offices in the town, says that financial and commercial firms are now recognising the "enormous potential" that Swindon offers.

Another firm of lawyers, Peake and Co, has also opened offices specialising in corporate and commercial work. And a local legal *firm, Kinneir and Co*, has merged with firms in Bristol and Exeter to form Bevan Ashford with a similar view of Swindon's potential

Of the big league chartered accountants, Ernst & Whinney has opened a Swindon office this year, and it is expected that at least one of its competitors will be arriving soon.

Until now, specialist legal and financial work required by Swindon-based *industry and business* has mostly been done in London – less than an hour up the railway line. Bnt the spectacular growth of Swindon in the last two years is convincing professional firms that they should set up shop in the town.

The prospect of a thriving commercial infrastructure is being seen by some as the next logical step in its development. At present the town is only sparsely equipped to house commerce. The most obvious need is for more hotels. The present ones can hardly cope with demand for rooms during the week by businessmen.

But there are plans for a new hotel building, and the situation will be eased later this year when the £9m Swindon Holiday Inn opens. It will provide 158 rooms with a high standard of accommodation within easy reach of the centre of the town and the M4.

The financial and commercial sector of Swindon includes at present Allied Dunbar; Nationwide Anglia, which has its national administrative centre there; and National Employers' Mutual Insurance.

Allied Dunbar, Britain's biggest unit-linked life assurance company, spotted Swindon'a potential as a centre for growth *as far back as 1971. The company* was attracted in the first place by Swindon's then low property prices and the ease of access to London.

Mr Phil Smith, the group's finance director, *sits* today in a tall office block overlooking the old railway plant – which is now undergoing frenzied redevelopment to create a model town centre of excellence. In almost every direction he can see other Allied *Dunbar buildings. The company has become one of the town's top* five employers, and has a staff of more than 2,000 in six office blocks clustered around central Swindon. Within the *last* year its workforce locally has grown by 13 per cent.

Allied Dunbar spotted Swindon's potential as a centre for growth as far back as 1971

Allied Dunbar has no regrets about its early move to Swindon and has become closely involved in community initiatives. As a group it now identifies with the town.

Mr Smith says that, as Swindon develops, more local people are finding jobs with the group at every level. The early pattern for Allied Dunbar's growth was that professionals such as accountants, actuaries, systems designers, and lawyers, mostly had to be attracted to work in Swindon from other places. But that is slowly changing.

Meanwhile, he says, there is a good pool of administrative people living within the catchment area, and others are prepared to commute to work each day from as far as Bristol and Reading.

The office boom now apparent in Swindon is a recent phenomenon as companies have begun to appreciate the town's convenience as a commercial centre. Only nine months ago there were vacant offices that had been built as speculative ventures. Since then they have all been taken.

There does not seem to be any immediate constraint upon the growth of Swindon's financial and commercial activities. There *is plenty of housing* suitable for office workers and rising executives in and around the town at prices that reflect the levels of the south east region but are still below London levels. There does not yet seem to be a shortage of recruits for firms moving into the town. Swindon has proved that people as well as companies are prepared to move to a congenial area of Wiltshire where well-paid jobs are available.

Nor is there any shortage of sites *for* offices in central Swindon. A great deal of land which is derelict after the demolition of old premises connected with Swindon's railway *heritage is* now being used as car parks. The skyline of central Swindon can be expected to change dramatically during the next few years as new office buildings go up.

Nationwide Anglia is currently looking for two new sites to build large office complexes to house its growing business. The company employs more than 800 people in Swindon already,and will need more staff to cope with its move into money transmission using its FlexAccount system. Also, all Anglia's investment business is being switched to Swindon since tha merger of Nationwide and Anglia. "Our involvement in Swindon is expanding rapidly," says Mr Jeff Wagland, a Nationwide Anglia manager.

Meanwhile, there is a steady stream of smaller firms in such financial and commercial services as development capital, public relations, and head-hunting, arriving in Swindon to do business with the expanding activities of the area.

"We are enthusiastic about Swindon and the very positive approach that the borough has taken in encouraging both small and large businesses to move to the town," says Mr John Hall-Craggs, a director of a development capital specialist, Abacus *Development Capital, one of the* newcomers.

PHH Europe claims to be second-generation Swindonian, as it first moved to the town from Berkshire in 1980, and now has a new purpose-huilt European headquarters building set in 16 acres of land beside the M4.

The company says tha town was in the right place at the right time at the right price. PHH also agrees that Swindon has contributed materially to *its success as a* leading supplier of fleet vehicle management and homa relocation services. The new headquarters houses about 650 staff who used to work in several separate offices around Swindon.

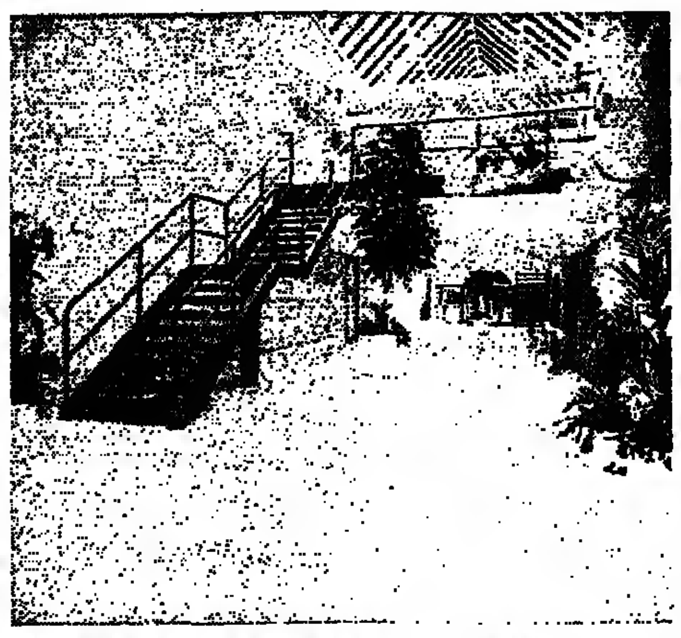
An important factor in PHH's choosing Swindon, rather than such alternative sites as Milton Keynes, Telford, and Peterborough, was, says the company, the M4 link with Heathrow airport which provides quick *access to* the growing number of PHH European locations.

Ednoation services and research facilities promise to be another growth area in the progress of Swindon. The expertise of the Cranfield Institute of Technology on the town's doorstep at the Shrivenham college is likely to be ever more closely linked with local industry and business life.

And the Science and Engineering Research Council and the National Environmental Research Council, which are already in Swindon, are to be joined this year by the Agriculture and Food Research Council and the Economic and Social Research Council.

All four bodies, funded by the Department of Education and Science, are being centred on Swindon. When they find themselves sharing common ground, thay may also find themselves being linked together more tightly in practical ways by a government which has no fondness for a proliferation of quangos.

They look like providing an interesting new centre of excellence for the town.



Sunrise 16, which cost £6m, is ready for immediate occupation

Property

House prices deter some

FIVE HOUSES are being completed every day in Swindon, nearly all of them by private developers. The ready availability of new houses within easy reach of factory or office is helping the momentum of the town's growth, *as families from other* parts of Britain and abroad are recruited by Swindon companies.

But prices are proving a deterrent for some – particularly for people wishing to move to Swindon from other regions where house prices at are on an altogether lower plane than the levels now accepted by buyers in the south-east. For Swindon, although technically in the south-west region, owes its economic affinities to the south-east, which starts only a few miles east of the town. House and property prices are in general a little lower than in Berkshire and Hampshire, but well above those prevailing south-west region.

Not all housing development is new building, however. In Swindon's Old Town, which was the original market town strategically sited on a small hill in the days before the railway came to change things forever, a great deal of effort is going into modernising good-class old property and keeping the character of the district. Mr Russell Cleverley, who runs Hannick Homes and Developments, specialises in sympathetically designed commercial developments with emphasis on the conservation of old buildings. He has just won Thamesdown borough's annual award for his efforts.

Thirty industrial and commercial estates are clustered around Swindon so far. And there is the certainly of a good deal more development to come, both on the outskirts and in the derelict corners of the central area where there will be much new office development during the next few years.

Until less than a year ago, there were property bargains to be had in Swindon, particularly for companies moving out of the highly-priced London and Thames Valley. There was vacant modern office space in the centre of the town, and companies moving into the business parks could often find new premises that had been built as speculative ventures and were waiting for a tenant.

The office and high-tech commercial market has changed dramatically during the last nine months, however, and some agents report difficulty in finding accommodation for companies wanting to move to Swindon in a hurry.

The largest high-tech building currently available in the Swindon area is Sunrise 16 fronting the M4 at Junction 16. This is a development in a landscaped setting with 64,000sq ft of space suitable for a company headquarters or other high quality business use.

Sunrise 16, which cost £6m, is ready for immediate occupation. A rent of £475,000 a year is being sought. The joint letting agents are Gooch & Wagstaff, Peter Taylor, and Chesterions.

In Old Town, a great deal of effort is going into modernising good-class old property

The latest big deal in Swindon offers a guide to the market. Terms have been agreed on a 240,000sq ft offices and computer centre on the Windmill Hill business park for the Galileo Distribution Systems headquarters. Galileo will consolidate Swindon's growing role as a electronic communications centre.

The system – basically a huge computer complex – will provide worldwide travel reservations and information systems for a consortium of British Airways, Aer Lingus, Alitalia, Austrian Airlines, British Caledonian, KLM, Swissair, TAP Air Portugal, and the United Airlines' subsidiary Covia.

Acting as agents for the consortium, Drivers Jonas has acquired Optimus, a new 79,000sq ft office huilding, for a rent in the region of £10 a square foot. Galileo has also agreed to lease a 160,000sq ft compnter centre which is now being huilt on the site. Finally, the consortium has taken an option on adjoining land which could take another 80,000sq ft computer-offices hlock.

The Galileo consortium says it chose Swindon over other UK and western European sites after assessing a series of requirements – inclnding land and huilding availability and costs, availability of telecommunications, transport infrastructure, a highly skilled workforce, and environmental considerations such as housing cultural amenities, and schooling.

Drivers Jonas investigated about 100 sites, short-listed eight, and inspected four, before Swindon was chosen. The Galileo ceotre should be fully operational by July 1989 after impressively brisk negotiations and planning.

Some time this summer the inspector's recommendations following a public inquiry will be made public, and Swindon will know whether its biggest proposed new development can proceed. The developers, called the Haydon Development Group, are a consortium of Crest Homes, Edwin H.Bradley and Sons, Wimpey Homes Holdings, Prowting Projects, McLean Homes South West, and Costain Homes.

They are hopeful that they will be allowed to develop the "Haydon Sector" – a slice of land to *the north of Swindon* – in a massive project that would create a mini new town of about 30,000 people (10,000 houses) together with three village centres, linear parks, all the infrastructure of new roads, schools, social centres, and shops, and 134 acres of industrial and commercial development.

An agreement reached between the developers and Wiltshire County Council after protracted *talks suggests that the cost of* putting in the necessary infrastructure for the Haydon Development would be about £60m, of which the developers would pay £31,500,000 and the county would have to fund the remainder.

It is an instructive thonght that the Haydon development would be one-third of the size of the whole of Swindon back in its railway-town days.

The £250m redevelopment of *the former* British Rail engineering works in Swindon hy Tarmac Properties will dominate towo-centre development for several years to come, and will change the face of central Swindon. It should hring style to what is a rather dull central area at present for such an ambitious town. Tarmac's plans include 1,000 new homes, 500,000sq ft of light industry, retail warehousing, more than 300,000sq ft of business premises, more than *150,000sq ft* of speciality shopping, studio workshops, and a raft of leisure facilities, including a railway heritage museum, a cinema, a restaurant, and a hotel.

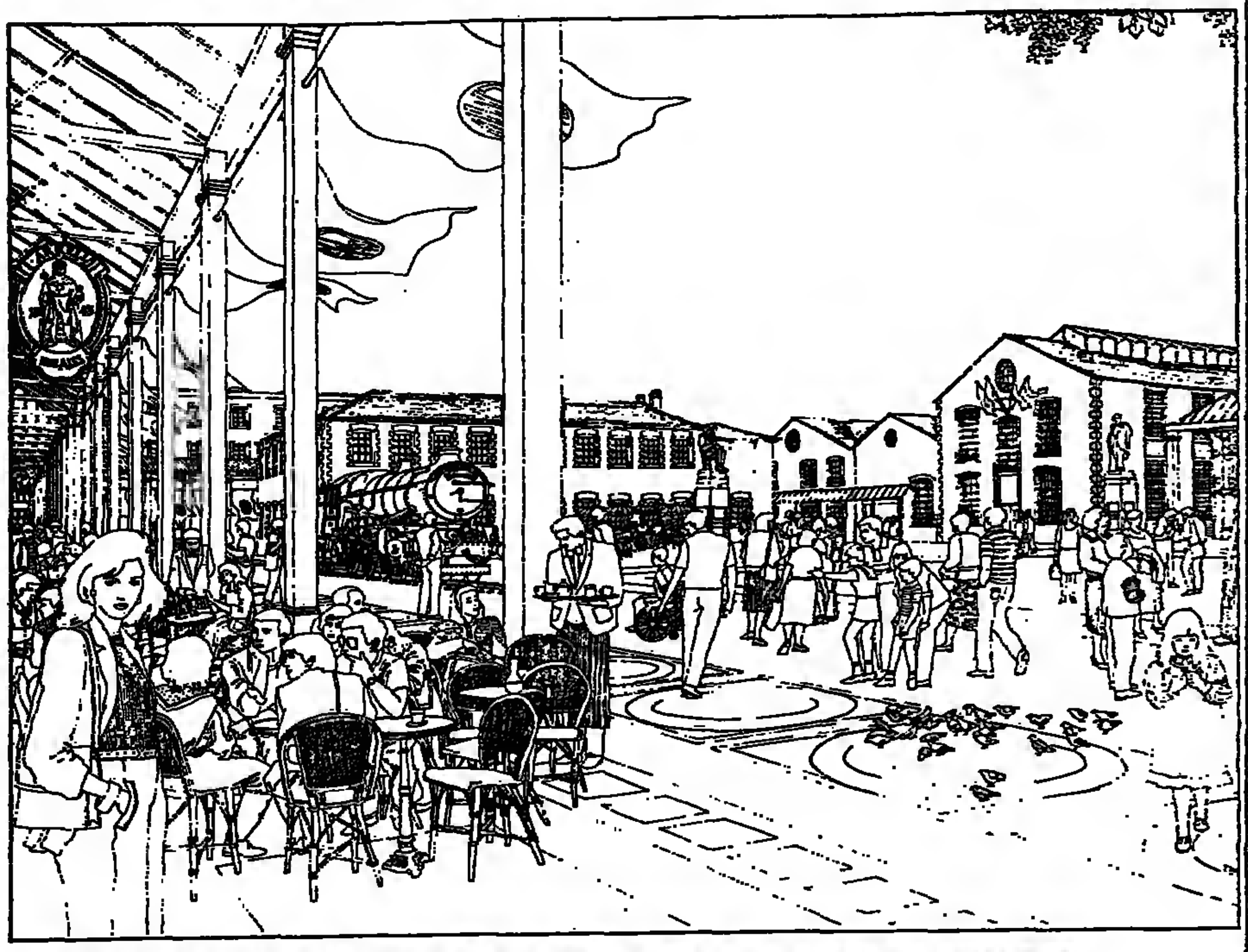
Swindon's relationship with Brunel and the Great Western Railway will be enshrined – tastefully, the town hopes – in the restoration of listed buildings on the site. There will be much use of squares and piazzas linked by tree-lined streets.

What Tarmac is calling Swindon's new urban village, together with other schemes for modernising and extending the existing pedestrian shopping area, will transform the town centre.

Roy Hodson

£250m may be invested in the redevelopment of railway workshops

New life for historic acres



The main square at the heart of the projected village would feature street theatre and historic locomotive displays

THE CLOSURE of British Rail's Swindon workshops has set the scene for one of the largest urban renewal projects in the country.

It has freed for new use a total of 142 acres close to the heart of the town, which until demolition began a few months ago contained one of the single largest covered factory spaces in Europe – British Rail Engineering (BREL) Swindon's 450,000 sq ft "A Shop" – and still retains 51 acres of listed buildings totalling some 500,000 sq ft in area.

This is the site which, for more than 100 years, was dedicated to manufacturing the famous locomotives, rolling stock and other engineering requirements of the Great Western Railway and which, at peak, employed some 14,500 people.

In future, if everything goes according to plan, it will become a new focus for day and night-time leisure activity in Swindon, as well as providing the town with a major addition to its growing industrial and commercial space, and housing and shopping needs.

On present estimates, some £250m is expected to be invested in the overall redevelopment scheme in the next five to 10 years, creating 3,000 new job opportunities in place of the 2,000 that were lost in the BREL workshops in the final closure phase.

Features of Swindon Village proposed to date include: a Heritage Centre, a covered Victorian market, wine bars and specialist shopping

The developers, Tarmac Construction, purchased the site last year from British Rail for £9m, and immediately invited the architectural profession to submit proposals for its comprehensive redevelopment.

The outcome of this architectural competition was the appointment of, as architects and lead consultants for the project, D.Y.Davies Associates, a multi-disciplinary design firm whose current work also includes the refurbishment of Heathrow's Terminal 3 and a major extension to the Guildhall in the City of London.

Subsequently, there has been a series of studies and consultations involving, in particular, the chief planning authority, Thamesdown Borough Council. But, according to Tarmac, the consultations and planning negotiations have gone exceptionally smoothly, and it expects planning consent to be granted very soon.

Tarmac is no stranger to large-scale urban regeneration projects. It established a good reputation in the field when it undertook the comprehensatve redevelopment of the former Bilston steelworks site, after the works had closed in the late 1970s. More recently, Tarmac has been the lead contractor on another major urban redevelopment scheme - that of Cardiff's East Bute dock.

The first phase of the Swindon redevelopment will be a radical improvement in road access. Traditionally served by railways only, the site is still bounded on two sides by railway tracks, and road entry is difficult.

A total of four new road accesses are planned, with the first being built in the north-east corner of the site. There, Tarmac proposes to pay the county council to construct a new roundabout adjacent to the Bruce Street Bridge, off which will run a new spine road southwards to give traffic access to the most exciting part of the regeneration project – the injection of new life into the 51-acre conservation area, already dubbed Swindon Village.

On present plans, this will be redeveloped – using many of the existing non-listed, as well as listed, Victorian buildings – into a series of grassed squares, malls, courtyards and pedestrian routes.

Key features of Swindon Village proposed to date include: a Heritage Centre for the Preservation of Engineering Excellence (to celebrate the site's illustrious railway origins); a 120,000 sq ft covered Victorian market, plus food court and wine bars; a futher 20,000 sq ft of specialist shopping, a cinema, an hotel, a 10-pin bowling club and a pub.

In addition, there will be some 400,000 sq ft of office space and 13 acres of urban housing – flats and link houses – ranged around the grassed squares and along the malls, the first of which could start to come on to the market towards the end of this year or early next.

Local public interest in the proposals has been intense. Some 33,000 visited the exhibition that illustrated the proposals, and several thousand filled in questionaires designed to draw out local opinion about the shape of the proposals. Top of the list was a desire for an improved leisure environment. "There is no nice place to be in Swindon at night," was a common complaint. Swindon Village, Tarmac hope, will silence such criticism.

The other new road accesses will facilitate the redevelopment of the other two-thirds of the site. One is to lead from Wootton Bassett Road, which lies to the south; and another off Rodbourne Road which runs through the middle of the redevelopment area but currently suffers from traffic overcapacity (part of its length is likely to be confined eventually to local vehicle access only). Finally, another new road is expected to be built from Meads Roundabout into the north-west corner of the site.

Between them, these roads will provide access to a further 40 acres of housing of all sorts, up to 500,000 sq ft of industrial, business and warehouse space, and probably a 27-acre retail park.

This last dimension of the redevelopment project, along with some of the housing and industrial premises, depends first upon the implementation of a major land reclamation project. The western end of the site, known as Mannington Sidings, consists of 59 acres of contaminated ash fill, built up over the steam-train era of 150 years. Before this land can be redeveloped, some 2m cubic metres will have first to be removed, a process likely to take at least two years.

Whether the retail park emerges as proposed depends also upon Tarmac's overcoming what has become probably the local planning authority's main reservation about the overall redevelopment scheme as it has taken shape – the provision of a further big increase in the amount of retail warehousing in the town. But the problem should not be insuperable.

Robin Reeves

The Brunel shopping centre would be refurbished and extended under three of the schemes that are being considered

Retailing

Six plans under scrutiny

THE TOWN of Swindon and the area around it are poised to put behind them a decade of relative stagnation in retailing, and to emerge in the 1990s as one of Britain's fastest growing shopping centres.

The pace of change has already quickened in the last 18 months or so. In food retailing, for example, the number of superstores has quadrupled to four, with two – Sainsbury and Safeways – opening in the last six months and creating more than 800 jobs.

That kind of progress pales into significance, however, when compared with present plans for the area. Under consideration are six plans for either building or improving significant shopping complexes, all with at least a reasonable chance of going ahead.

Three involve a transformation of the town centre. The 10-year-old Brunel Centre would be refurbished and extended, and a significant chunk of the Old Town would be redeveloped.

The other three plans involve the creation of two large retail warehousing centres, both adjoined by speciality shopping, and the inclusion of a large shopping complex in a development scheme in the north-east of the town that would create 10,000 homes.

This frenetic activity represents a marked contrast to the last 10 years. Although national retailing chains like Laura Ashley and Next have moved to the area, the only multi-store development since the completion of the Brunel Centre has been the out-of-town West Swindon District Centre. The centre of the town has changed little.

Swindon's retailing sector has grown but it lags behind neighbouring towns and cities like Bath, Bristol, Cheltenham and Gloucester. Its relative lack of prime shopping facilities mean that it has only two large department stores.

Major chains that are not represented in the town include John Lewis Partnership, House of Fraser and Habitat, although all three are thought to have looked at Swindon in recent years. Speciality sectors that are poorly represented include antiques and high-class clothing for women.

Swindon's difficulty in matching its neighbours' shopping centres is partly a reflection of the fact that economic prosperity came to it later than most of the others. But local commercial surveyors believe the borough council must take some of the blame.

"Until recently, Thamesdown controlled all development through ownership of land, most of it in the town centre," saysMr Simon Bitmead, a partner in surveyor J.P.Sturge, which is agent for two companies hoping to develop retailing centres in Swindon. "It opposed out-of-town developments and has only changed tack recently after losing several appeals."

Not so, says Mr Derrick Bye, chairman of the planning committee. Thamesdown has opposed one-off developments, because they have paid too little regard to infrastructural needs, he says; and he points out that private developers have not put forward any suggestions for major shopping complexes prior to the six under consideration.

Whatever the borough's record in the past, it seems committed, with varying degrees of enthusiasm, to five of the schemes, and is thought likely, after negotiations, to back the sixth.

The pace of change is already quickening

The six plans involve either creating or refurbishing more than 1m sq ft of retailing space:

■ In the Old Town area, Savington Developments has been selected by the borough to develop the core area, much of it Thamesdown-owned. The scheme, which would create 135,000 sq ft of speciality shopping, aims to revitalise an area which many consider attractive but under-utilised. It is opposed by local traders and still requires planning permission.

■ Norwich Union has outline planning permission to create an extra 200,000 sq ft of shopping facilities around the Brunel Centre, which it will also refurbish. About 60 shopping units will be created, and the anchor store is likely to be occupied by one of the multiples. Loveday & Loveday, local agent for Norwich Union, expects work to start in 1990 and finish two years later.

■ Nearby, Sun Alliance plans to refurbish its Parade complex. Eight of the 30 shops will be demolished, the 1960s-built canopied mall will be enclosed, and the present 250,000 sq ft of sales area will be increased by 55,000 sq ft. The scheme has a commitment in principle from the council, and work is expected to start within 12 months.

■ Tarmac, the construction group, hopes it can start work this year on a housing, shopping and leisure complex on the former BREL site in the north-west of the town. The scheme is likely to involve up to 250,000 sq ft of retail warehousing, as well as a 38-acre Swindon Village. This would make use of listed buildings to create a speciality shopping complex along the lines of Covent Garden in London. The council has yet to give support to the scheme, but Tarmac believes it can get it.

■ At Greenbridge, north-east of the town centre, Britannia Developments and National Freight Corporation have planning permission for a 340,000 sq ft retail warehousing development, together with further space for speciality shopping. Dreweatt Neate, agent, says it has already received firm interest from retailers to occupy half the scheme.

■ Mr Nicholas Ridley, Secretary of State for the Environment, is considering plans by Crest Homes and English China Clays to build a 1,500-acre mini-town consisting of 10,000 homes. Shopping facilities would include a 100,000 sq ft superstore, support shopping of 50,000 sq ft, a 50,000 sq ft DIY centre and, eventually, 150,000 sq ft of retail warehousing. The council has withdrawn initial opposition to the scheme, having negotiated environmental changes.

With so much in prospect, is there not a danger of a glut of retailing?

Developers can draw comfort from the rapid increase in population in the Swindon catchment area. According to *Shopping in Thamesdown*, a policy appraisal drawn up last year by the borough's town planning department, population should increase from 312,000 in 1986 to 334,000 in 1996.

This has particularly important implications for expenditure on comparison goods, defined as such items as clothing, footwear, furniture and leather goods, because the trend is for more spending per capita on these. *Shopping in Thamesdown* estimates that spending on comparison goods will grow from £249m in 1986 to £358m in 1996 (1986 prices). Convenience foods growth will be less impressive, but even this will rise from £238m to £255m.

Whether this will be enough to justify all six schemes is another question. While each developer expresses confidence in its own scheme, there is doubt whether all can go ahead. "We are talking about 1m sq ft of space," says Mr Bitmeda, of Sturge. "Even Swindon cannot cope with that."

Mr Bye, the planning chairman, believes that there could be considerable alterations to the projects before they come to fruition. "There may be a hardening of approach," he says. "Market forces will bring them into line."

Michael Smith

SWINDON IS beginning to suffer a shortage of skills – a surprising development in a town that was sorely worried until recently about the railway engineering works closure and the ensuing redundancies.

The Swindon Development Agency, which was set up to help cope with the ending of British Rail Engineering activity, now finds itself tackling problems resulting from labour scarcities that would not have seemed realistic even six months ago.

Swindon's transition from unemployment to virtually full employment has happened very quickly. Only last year there were big numbers of redundant people to be resettled and office blocks built in the town centre were standing empty. Now it is getting harder by the day to recruit suitable people, the office blocks are all let, and the town shows distinct signs of mild "over-heating".

In March 1986 there were more than 1,300 railway engineering works job losses, and male unemployment in the town rose to 7,200 – 15 per cent of the workforce. By late last year there had been a further 800 railway redundancies but the male unemployment figure had, meanwhile, fallen to 5,000 – representing just 9 per cent of the workforce.

Since then unemployment has continued to fall, although at a slower rate, and shortages of skills have started to emerge.

It is clear that a residual number of a few hundred of the older railwaymen are unlikely to take on new jobs. They are seen by the agency as one of its special responsibilities. It has a continuing programme to organise meetings and activities for them. They are good with their hands and Swindon manages to support a remarkable number of shops catering for model railways and similiar creative hobbies.

The Swindon Development Agency, which was originally set up to help cushion the redundancies from the railway workshops, is now looking for ways to help fledgling businesses, and become more positively engaged in business promotion.

The agency was started just two years ago to operate the financial package of £1.25m which was contributed by British Rail Engineering when it decided to close the Swindon works with a loss of more than 2,000 jobs. The money was intended to create alternative employment opportunities in the area.

Swindon does not have the advantages of new town or development area status. But the agency set out to offer one of the most attractive packages of incentives available in the south of England.

From the start, it worked with leaders of the Thamesdown Borough Council (the local authority) and Wiltshire County Council, together with the major employers, business bodies, and trades unions.

Now, two years later, nine out of 10 of the redundant workers have found new jobs or have settled for early retirement. The agency has assisted in creating upwards of 1,000 new jobs, and has secured, over and above the British Rail money, about £120,000 from local businesses to help its work.

The agency's chairman, Mr Rama Nand-Dal, sees its role as having passed through several stages during its brief existence in the frenetic climate of Swindon business. After being set up and financed to arrange start-up packages and loans for business, it moved on to give management advice to organisations.

Mr Norman Hayes expects the "one-stop" centre to start functioning in August

Tony Andrews

Profile: the Swindon Development Agency

Back on the rails

The agency, originally set up to help cushion the redundancies from the railway workshops, is looking for ways to help fledgling businesses

Experts joined the agency on secondment from the ranks of local industry and commerce. Lately it has begun to study venture capital possibilities. Its next big move, will be to bring together the several different agencies trying to promote Swindon's business growth under one roof as a "One-Stop Business Centre".

When that centre is up and running, the agency will have moved well beyond its original brief of helping the railway workers, and will be into a five-year development plan for the growth of the town.

Mr Norman Hayes, director of the agency, expects that the "one-stop" centre can start to function from August this year. The Wills Tobacco company (part of the Hanson Group), which closed its tobacco activities in Swindon, has put up £50,000 towards the venture and there has been strong support from a number of other leading companies based in the town.

The first important wave of new industry caught Swindon by surprise. It was a period of strong American investment in the town. The businesses concerned were attracted by Swindon's convenient geographical location and the nearness of Heathrow airport.

Since then the most significant newcomer has been the Japanese car maker Honda, which ensconced itself comfortably on the South Marston airfield four years ago with enough land to build an integrated car plant should it wish to do so. The arrival of Honda has triggered tremendous interest among other Japanese companies who are clearly thinking of following one of their national market leaders into the town.

Swindon expects to play host to Japanese motor industry components companies, to Japanese service industry companies, and to Japanese financial services businesses – all as a result of the arrival of Honda.

As in many of the most successful growth points of the south of England, Swindon is suffering from an acute shortage of cheap simple sheds where a new business can get started and spend its first months before taking on more ambitious premises. The agency is tackling this problem with imagination. An old fire station has been converted into ten starter units for businesses. And recently it has taken a 30,000 square feet office block, which is being let as small office units.

In the coming year the Swindon Development Agency will concentrate much of its resources upon re-training. That, says Mr Hayes, has got to be the name of the game, to match a still sizeable register of some 5,000 unemployed against the skills shortages of so many of the new companies.

Eight of the bigger local employers have formed themselves into a group called the Swindon Partnership, to provide whatever help the local economy might need. It will probably be one of several such voluntary efforts.

Another is the newly-created Thamesdown Motor Industry Forum, which seeks to rationalise Swindon's undoubted promise as a centre for the motor industry. Set up by the initiative of the borough council, this body will probably include Honda, Rover, Volkswagen, and Renault, together with local companies involved in motor components. It is yet another sign of the exciting changes taking place in Swindon since it gave up being a railway town.

Roy Hodson

Profile: W.H.Smith

Home of a £1bn turnover

W.H.SMITH was one of the first London-based companies to take advantage of Swindon's strategic geographical location. As long ago as 1966 it decided to decentralise part of its activities to the town.

Today the largest retail chain of stationers, newsagents and booksellers in Britain is also Swindon's second largest private employer, providing jobs for more than 2,000 people, if those who work in the Property Division, handling the group's £158m portfolio and Book Club Associates, in which the group has a 50 per cent share, are included.

For many years, Swindon was confined largely to the company's backroom and warehouse operations. But then, three years ago, its Swindon presence received, arguably, its most significant boost. It was decided to transfer the headquarters of the retail group from London to the Wiltshire town as well.

Swindon is now the head office for W.H.Smith's main business – its six UK retail chains which include, as well as W.H.Smith Retail, the DIY chain, Do It All, Our Price Music, Paperchase, Sherratt and Hughes, and W.H.Travel.

According to the group's most recently published accounts, these retail businesses were responsible for £1bn of the group's overall turnover of £1.6bn, over 88 per cent of which is earned in the UK. The high street retail earnings totalled £868m, while the DIY turnover amounted to £144m.

Mr Colin Warwick, the retail distribution director, says that initially there was some nervousness over the concentration of activities on Swindon. "We wondered if our buyers would be willing to move out of the metropolitan environment, and whether our suppliers and publishers would be happy having to come to Swindon." In practice, he stresses, the headquarters move, by bringing everybody together, has welded the retail group into a more effective unit. "People have discovered the pleasures of [British Rail's] HS 125, the absence of parking problems and the far pleasanter working environment."

The headquarters move, by bringing everybody together, has welded the retail group into a more effective unit

Suppliers, too, he says, far from being unhappy about the new location, frequently emphasise how pleasant and easy it is to make a sortie to Swindon to do a deal and return the same day.

There have also been big savings in occupation costs. As a result of the move, the company was able to sell its former off-Fleet Street headquarters as well as achieve significant reductions in rent and rates bills, and in meintainance and service charges.

The group's central retail warehouse at Swindon is responsible for the distribution of some 2m packages a year, worth around £350m, a logistical operation of major proportions. It involves a staff totalling around 1,000, warehousing, and picking and dispatching to individual stores around 100,000 items a day.

Yet this "central channel" of distribution accounts for only about half of all the products stocked in W.H.Smith stores. "Time-sensitive" products and items like recorded music, where suppliers carry the risk, are supplied direct. So too are two other categories, "approved" and "local" purchases, designed to cater for local tastes and demands.

A warehousing operation of this scale and sophistication would be difficult without the power of modern-day computer systems. The retail headquarters transfer to Swindon has also been important in paving the way for the introduction of Electronic Point of Sale (Epos) management. Involving a capital outlay of £20m, Epos links each branch computer with the centre and is designed to combine the benefits of both central and local management control.

This link-up is going hand in hand with RUCAPS – a "Really Useful Computer-aided Programme for Stores" – and the gradual introduction of a new high street livery for the W.H.Smith shops.

The computer programme is able to throw out layouts for individual stores, which will optimise the return per square foot, simply by feeding their dimensions into the computer. It has replaced a whole army of professional layout designers.

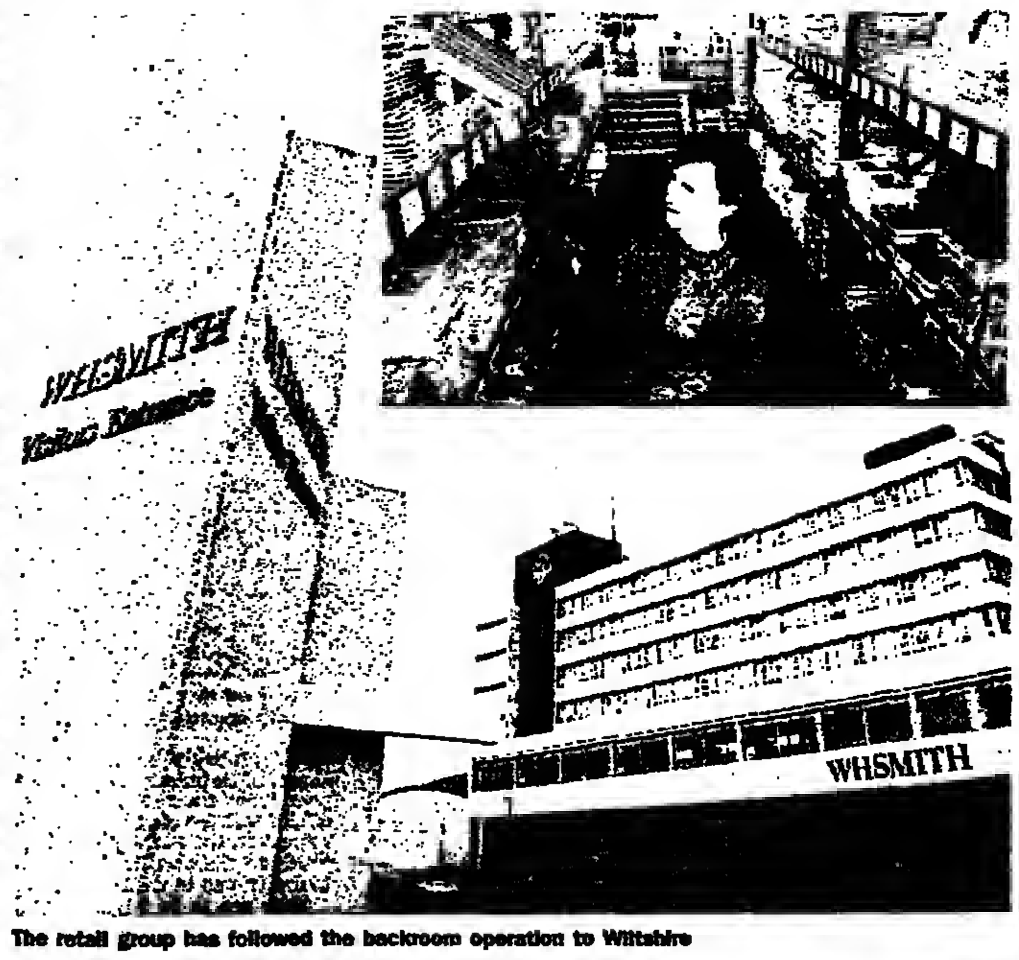
The new livery was designed by Peter Leonard, and has already been adopted by 45 of W.H.Smith's existing 450 retail outlets. Eventually, the change will lead to the disappearance of the traditional brown, red and orange livery of high street branches in favour of a lighter, cleaner look, designed to show the range of products in W.H.Smith stores to better advantage.

And there promises to be many more of them. Certainly, the retail group is currently looking for a lot more space in catchment areas with as few as 80,000 people, says Mr Warwick. And the main restraint, he says, is a shortage of sites in the right places.

This goes not just for the traditional high street shops, but also for W.H.Smith Travel, which is set on a rapid expansion path through both new shop openings and acquisitions. It reckons to be already the fourth largest retail travel operator.

The success of W.H.Smith has come from a business policy of always seeking to be a dominant player in the markets in which it operates. This has long been true of newspaper distribution and stationery. It is now out to achieve the same in travel.

Robin Reeves



The retail group has followed the backroom operation to Wiltshire

Employment

6 per cent jobless rate likely

THE STATISTICS are impressive. This time last year the number of jobless in the Swindon travel-to-work area stood at 9,323, or 9.3 per cent of the workforce. By March the figure was down to 7,023 (7.2 per cent).

This was achieved at a time when the labour force was increasing through more people moving to the area, and through more women seeking work. It also happened when the area was still getting to gripe with problems created by loss of more than 2,000 jobs at British Rail's engineering works.

The signs are that the upbeat trend will continue, with a jobless rate of between 5 per cent and 6 per cent in prospect this year. For Swindon, the challenge is to ensure that companies moving to, and expanding in, the area are provided with the right kind of staff.

Of those unemployed in March, about two thirds were unskilled, according to Swindon Jobcentre. But most of the jobs coming into the area are in fields like computing, office work and construction, which require expertise and training.

Moreover 52 per cent of March's unemployed had been without work for six months or more, and are thus susceptible to the loss of confidence and motivation that goes with long term joblessness.

Officials of Thamesdown Council, the Manpower Services Commission and and Swindon Development Agency, the body set up to create jobs for the casualties of British Rail Engineering Limited, believe the biggest area for future concern in labour skills is in high technology.

"It is a national problem, of course, but because we are a leader in the field we have to be on our guard," says Mr James Robertson, head of the council's economic development unit.

Of those unemployed in March, about two-thirds were unskilled, according to the JobCentre

Potential difficulties will be accentuated with the extraordinary growth ahead for Swindon's new technology sector. British Telecom's decision to set up a regional headquarters there and the arrival of Project Galileo, the new European airline joint booking system, are just two developments that will add to the demand for computer and related skills.

Demand will also be fuelled by the continued expansion of financial services companies, such as Allied Dunbar and Nationwide Anglia, both with increasing needs for high technology.

Swindon is fortunate in that its environmental and communications advantages enable it to recruit relatively easily from outside. Ten years ago Allied Dunbar recruited almost exclusively from the local area, but Mr Sandy Leach, managing director, says more employees are now coming from outside. With the company expanding its 2,100 workforce by about 10 per cent a year, the trend will continue.

Filling the computer skills gap demands national action, but Thamesdown Borough Council is playing its part by, for example, helping to fund the move of the area's Information Technology Enterprise Centre to larger premises. The council's provision of grant aid and loan facilities will enable the Itec to provide a better quality of service to more people.

More generally, Thamesdown's economic development unit can use its links with local industry to warn the MSC and local educational institutions about likely future skills gaps.

A broad spectrum of high technology skills are taught in a variety of educational institutions. Both Swindon College and Cranfield Institute of Technology's Royal Military College of Science at Shrivenham, six miles from the town centre, provide custom-made courses for local companies and are keen to strengthen their links with industry.

The expansion of Swindon's economy is also beginning to create problems in recruitment of staff with office and administrative skills, including of course those in new technology.

These difficulties will be alleviated by YTS training. The MSC says that, of the 1,000 or so people on YTS in the area, about a third are involved with clerical skills.

The local authority has responded to the gap in the market by helping to create the Pinehurst Project. Based in a former community centre, the £180,000 project is backed 50 per cent by the EC and 50 per cent by Thamesdown.

With a staff of four, the project aims to be training about 130 people by the end of December, mostly mature women who want to return to work. Each will be provided with a minimum of 200 hours of training in office skills.

Mr Robertson says the economic development unit is also trying to persuade companies to take on more of their own training, in-house. It achieved a notable success recently, when the consortium that plans to build a mini-town consisting of 10,000 homes in the northern sector of the borough agreed to set up a construction training school if the scheme goes ahead.

"The school would train people other than those who were going to be directly employed by the consortium," says Mr Robertson. "It is still at the embryonic stage and we do not know how big it will be. We do, however, have a commitment in principle."

Meanwhile, Gordon Russell, the furniture maker, will show the way later this year when it introduces a three-year apprentice scheme.

Michael Smith

SWINDON 6

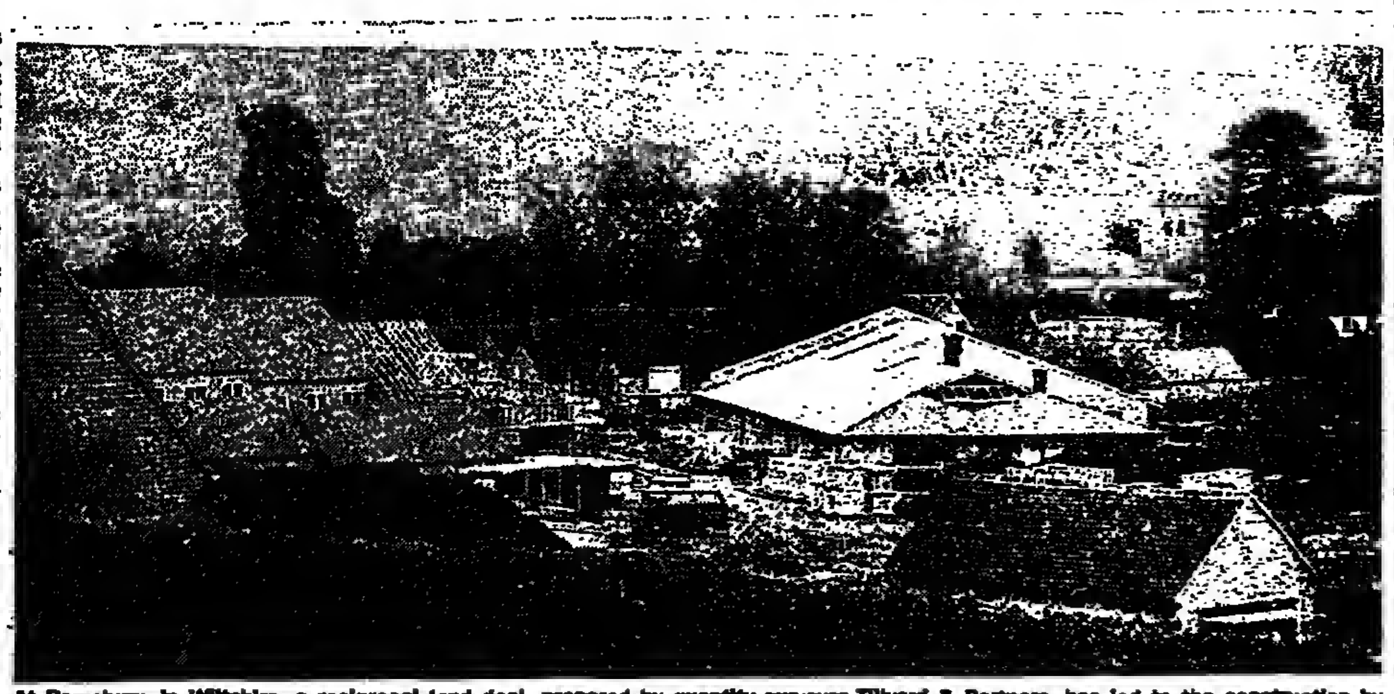
Movers and shakers tend to live not in Swindon but in the surrounding villages

The Wilts cuckoo spreads its wings

AS SWINDON has pursued its pell-mell growth, its custodian, the county of Wiltshire, has looked upon the precocious child at first with amazement, then with resentment, and finally with concern.

Wiltshire has a cuckoo in its nest with the town of Swindon. The balance of power within the county has been up-ended by the upstart growth of this place in the far north-east of the shire which clearly owes more to the oew values of the thrusting south-east of England than the more traditional ones of the West Country.

Mr Chris Thorne, the economic development manager of Wiltshire, says that the county expects the whole of north-east Wiltshire to have a population of 268,000 by 1996. That assumes, with all the caution of an experienced county council, that the big Haydon development designed to make virtually a new town out of fields on the north side of Swindoo will be far from fully implemented by that date.



At Ramsbury, in Wiltshire, a reciprocal land deal, prepared by quantity surveyor Tillyard & Partners, has led to the construction by Beechcroft Developments, for the county council, of a primary school, and a small private sheltered housing development

In short, the county is disposed to apply a degree of caution to the heady growth projections of the Swindon planners and developers. While it is usually wise to err on the side of prudence, the county's caution may well prove to be misplaced in this matter.

The putative contracts and projections for the growth of Swindon are looking good. The town has developed beyond all expectations in the last 10 years, and there is no reason to suppose that its heady targets will not be reached in the next 10 years.

The national demographic trend is for the oumber of school-leavers to fall by as much as one-third over the next seven years, forcing employers to rely for expansion upon more mature workers. In turn, that will mean a considerable effort in retraining "mature students". That national picture will not apply in Swindon. So many young families have moved in to take advantage of the buoyant local economy and bring up their children that the town has an abnormally young age structure.

Long after the oumbers of school-leavers have begun to fall in most towns and cities, Swindon will be turning out growing numbers of young people into a receptive and well-paying local labour market.

In the fullness of time, as other articles in this survey make clear, Swindon is destined to enjoy a bright and bubbling town centre with a mix of good quality housing and amenities. That is all some years ahead, however. In the meantime, the general pattern is for the traditional inhabitants of Swindon to live near the centre of the borough, while the new high-tech employees live on the housing estates interleaved with the many business parks in an endless surburbia.

The movers and shakers of the Swindon economy – the managerial classes – tend not to live in Swindoo at all, apart from a few who have been lucky enough to secure substantial Victorian residences in Old Town. They opt instead for the country life in villages surrounding Swindon but within easy commuting distance – less than 30 minntes drive by car through the Wiltshire lanes is typical, and Samantha can keep a pony in the paddock.

The county has to balance the development of its thriving west Wiltshire towns, all influenced by the M4, against the capital demands posed by the growth of Swindon in the east

So Swindon remains for the while basically a working-class society, and it returns a Labour council against all the apparent odds in such a thrusting business environment. The people who, in a more balanced society mix, would probably be leading the affairs of Swindon tend to disappear from their campuses and *offices each evening to delectable* refuges in the surrounding Cotswolds to the north and the Wiltshire Downs to the south.

They are to be found in such nearby rural retreats as Cricklade, Fairford, Shrivenham, Ramsbury, Wootton Bassett, and Wroughton, and as far away as Devizes, Marlborough, Calne, Chippenham, Faringdon, and Malmesbury.

Wiltshire county has to try to balance the development of its group of thriving west Wiltshire towns – all influenced by the M4 – including Chippenham, Melksham, and Trowbridge, against the almost insatiable capital demands posed by the growth of the Swindon complex in the east of the county. The present local governmeot structure was not designed to cope with that sort of problem.

One of the county's responses has been to establish an economic development unit within the chief executive's department, charged with helping in the development of an overall prosperous economy in the county, and to help solve the county's residual unemployment problems.

The unit is now involved in a wide range of activities which include business informatioo, trade promotion, export promotion, attracting oew businesses, business property, finance, tourism opportunities, employmeot creation, training, redundancy counselling, European Commnnity grant aid, and rural unemployment.

Across Wiltshire there have been steep falls in unemployment over the last year. The county unemployment figure was 9.5 per cent at the end of 1986 but had dropped to 6.7 per cent by late 1987, and has fallen further since.

Some skills shortages are now become apparent across Wiltshire as well as in Swindon and Chippenham, says Mr Thorne, and the demand for development sites and premises throughout the connty is increasing rapidly. Much of the interest is, once again, from companies wishing to relocate from London and the south-east region.

Swindon's influence is spreading far outside its boundaries. At Wootton Bassett, a nearby village, a 30-acre site with planning permission for industrial and commercial development has beeo purchased by Trafalgar House Business Parks.

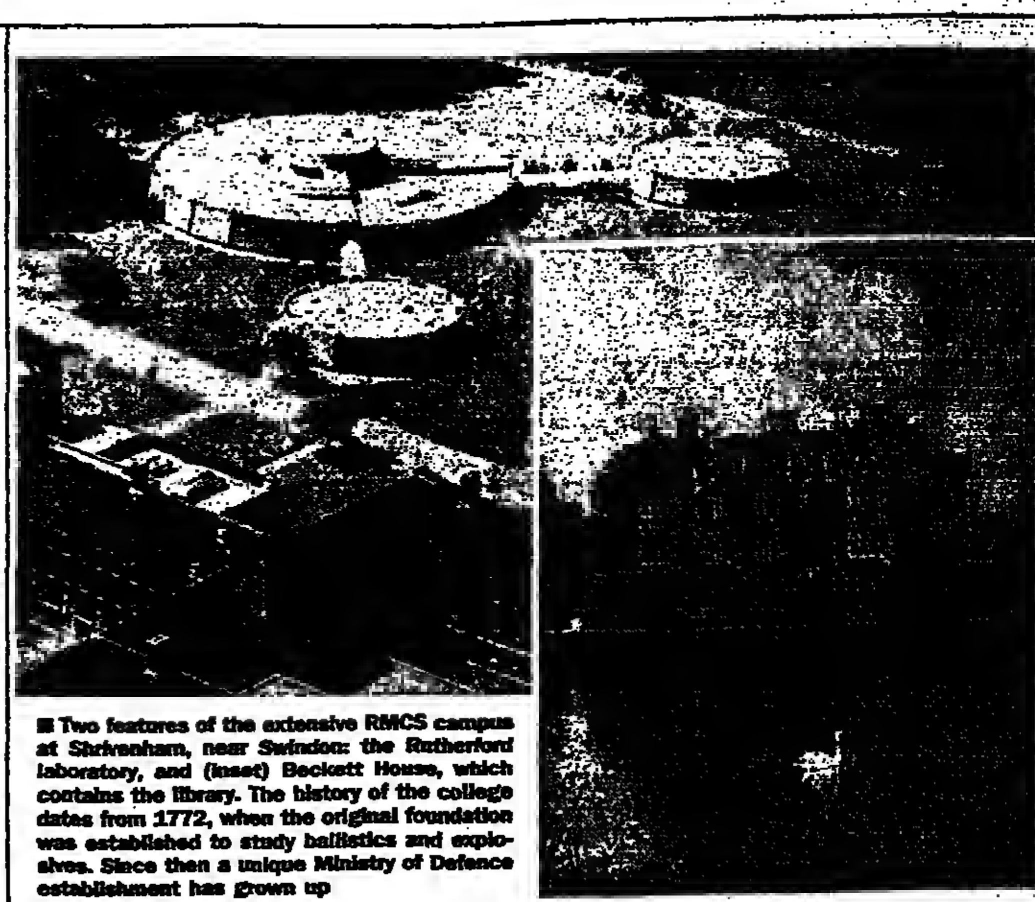
The site was originally earmarked for a 400,000 sq ft IBM building, bnt the group decided to go to Portsmouth instead and the land was sold. This is a prime site on the M4 corridor, and it is to be called "Interface Swindon". It will be just that. It will have the effect of elongating the Swindon conurbation westwards along the M4.

The combination of Swindon's synergy and its natural advantages as a growth point served by rail and road is making local and county plans for careful and controlled growth obsolete almost as the ink dries on them, as Interface Swindon, which is outside official Swindon but well within the town's catchmeot area, has recently demonstrated.

Wiltshire's prosperity, with people moving into the county to take up readily-available, well-paid jobs, must be at the expense of other regions. A westcountry housebuilder, WM Designer Homes, has done a survey recently which claims that 62 per cent of purchasers buying the company's properties in Gloucestershire, Wiltshire, and Oxfordshire, have moved from the south-east region.

The message is: "Go west young man".

Roy Hodson



■ Two features of the extensive RMCS campus at Shrivenham, near Swindon: the Rutherford laboratory, and (inset) Beckett House, which contains the library. The history of the college dates from 1772, when the original foundation was established to study ballistics and explosives. Since then a unique Ministry of Defence establishment has grown up

Profile: RMCS Shrivenham

Research facility on the town's doorstep

SWINDON HAS the Ministry of Defence to thank for a golden opportunity to develop a technology-oriented university of its own.

Since 1984 the Royal Military College of Science, a noble collection of buildings set in lovely parkland just ontside Swindon, has been a faculty of the Cranfield Institute of Technology. During one of the MoD's periodic drives to get more value for money from the nation's defence budget it sought an outside educational body to run Shrivenham on its behalf. The Cranfield Institute tendered and won a five-year contract.

The arrangement has worked well. Student numbers have trebled in the last four years to some 3,000, and the college's research work has quadrupled. The general expectation on the campus is that Cranfield's contract will be renewed next year, and that what started as an experiment, which might easily have foundered on either academic or military obstacles, will become a permanent feature of the higher education scene.

Mr Rama Nand-Lal, the head of administration for the Cranfield Institute at Shrivenham, sparkles with enthusiasm as he sketches out a possible future for the college linked to Swindon's high technology industries. He is close to the subject, as he is also chairman of the Swindon Development Agency which is in the forefront of the town's economic development.

The Cranfield Institute, which specialises in advanced teaching and applied research in engineering, technology, and managemeot, sees that Shrivenham could be developed in harness with the new Swindon industries. There are links already. Honda, which has based its British activities at Swindon and may expand substantially there on a site near the college, has endowed a £1m eco-technology ceotre at the main Cranfield campus in Bedfordshire.

Shrivenham's role for the Ministry of Defence is to cater for a mixture of Royal Air Force, Army, Civil Service and nominated civilian students at undergraduate and postgraduate levels, and with many short courses. The college offers degree courses in civil and mechanical engineering, applied science, electronic systems engineering, communications systems, and information technology.

One bold way forward would be to establish a science/research park in Swindon

At postgraduate level it offers academic courses in guided weapons systems, military vehicle technology, design of information systems, gun systems, explosive ordnance, ballistics, military electronics systems, and a Master in defence administration.

In recent years the college has also been encouraged to take on private veoture activities to make full use of the facilities. That policy has been so successful that, as Mr Nand-Lal puts it, "Now we are bursting at the seams".

One bold way forward would be to establish a science/research park in Swindon. Cranfield's contract research is already the largest of any British university or higher education establishment. Such a development would fit in well with its expansion plans. It is already developing a similar park at Milton Keynes – another British town which vies with Swindon as a high-tech centre.

Mr James Robertson, the director of economic and social development for Thamesdown borough, says the council for its part, is very keen to promote a greater awareness among Swindon business of the Shrivenham and Cranfield research facilities. Swindon, he says, has a purpose-built university on its doorstep.

If the idea of a science/research park is pursued, it could provide a technological heart for Swindon with conference facilities and perhaps its own hotel.

Meanwhile, the college already has a number of agreements on research and development with local companies and is doing a growing amount of consultancy work for them.

Although the way ahead is not yet clear, it is certain that the Cranfield Institute, through its presence at Shrivenham, will be an important factor in Swindon's development. "We are an entrepreneurial university and we are here at the right place at the right moment in time," says Mr Nand-Lal.

Roy Hodson

Time for a flyover, said Zebedee

LOCALS SAY with a grin that nervous women drivers have been reduced to tears by it. I can vouch that the first-time male visitor to Swindon can be baffled by it. Yet the object of all this concern, Swindon's Magic Roundabout, has been an unqualified success in traffic management and road safety terms.

Where five roads meet on an approach to the town centre from the M4 motorway, a central roundabout is surrounded by five satellite roundabouts. The rule for survival in the resulting traffic ballet is – "Give way to the right".

Mr Brian Daniels, of Thamesdown Borough Council, the local authority, says: "It has been a great success. We can get one-third more traffic through this system at peak hours than would be possible with a conventional roundabout."

The roundabout claims its share of minor shunts and bumps, but Mr Daniels believes they largely result from strangers unfamiliar with the system: "The locals buzz through like bees".

The roundabout was the joint creation of the borough and the Road Research Laboratory at Crowthorne. Sadly it may shortly become a victim of its own success. Traffic is increasing so rapidly throughout Swindon that a flyover may be needed above the Magic Roundabout. RH